Metro Bank H1 Results 2018

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

Presentation

Vernon Hill

Hello, everyone here in London and good morning to everyone in America. We're pleased to welcome you all by phone, in person and on the web to the announcement of the first-half financial results of Metro Bank. Just by chance, this is the conclusion of our eighth year. A company that started from scratch with the idea of reinventing banking in Britain, and we're pleased to report to you on our results at the end of year eight.

Craig Donaldson, our Chief Executive Officer is here, and our new Chief Financial Officer, David Arden, is with him. We're going to start with some summary of the first-half results and as most of you know, we've just completed a growth capital raise of £303 million, and we're going to go through that and talk about why we did it, and the results, and the Metro Bank story. I'll hand it over to Craig to begin on the first-half results, but I have to make one comment. What bank would put their dog's picture on the front page of their Annual Report? And what bank could? With that, Craig, I'll hand it over to you.

Craig Donaldson

I've had some strange introductions, that's actually not the worst, to be clear. So, I'll take it while I can. So, thank you, Vernon.

Very quickly, we're going to present a little bit differently. So, let me talk first of all about the half year, like Vernon said. So, we have a very strong organic first half across customer numbers, across deposits, across lending. If you look at our customer numbers, they grew to 1.4 million customer accounts, up over 200,000 in the half. If you look at our deposits, they grew by £2.0 billion in the first half, £6.2 million per month on average. That's about $100 million per store per annum – unbelievable, strong organic growth. And consistent is the key.

Lending, we grew by over 55% year-on-year. And, most impressively for me was over £1.0 billion organically in the second quarter. And the beauty is when I look at our pipelines that are coming, we have a very, very strong momentum across all of our lending engines as we enter the second half of the year. When you add all that together, with our strong cost of risk, we delivered a four-fold increase in our profit from H1 last year to H1 this year, showing the momentum of the growth, showing the momentum of the profit, and showing how accepted Metro Bank has been into the UK and just how many people are talking about us being the revolution. Vernon, I will give you the slides as well because I know you're going to talk to some slides.

Vernon Hill

So, what we're going to do is go through the slideshow we used to complete this equity raise, we completed last night. And it's our chance to talk to you about who we are, what we are, what our results have been after year eight and where we expect to be going. I believe you all have books with these slides in them.

As some of you know, this is something completely new in UK banking. They claim we're the first new High Street bank since 1840. It is based on our model in America. Everything we did in America works better here. We started with a fresh slate. We weren't burdened with the past. We have a proven model. We have brand new IT systems, and off we go to reinvent UK banking.

Now, our basic business model is about building FANS. Banks talk about product sales and other numbers, but our basic business model is great growth-businesses build FANS. And when we mean FANS, we talk about branding. You've got the lower level brands where you say Ford, nobody gets too excited. You go up the ladder. But legendary brands – when the customer and the company become one, we call them FANS. Apple is, of course, the clearest example in the world right now. You can only explain the Metro Bank performance if you understand the concept of building FANS. And everything I do, Craig does, and our team does is not how we make an extra quid next quarter; it's how to build more FANS. And to understand the Metro Bank story, you have to understand this concept of building FANS.

So, as you go out to create a business, we've learned over the years doing this, that great businesses that build FANS have three parts: a differentiated value-added model; a culture that is unique and matches the model; and execution – fanatical. And those of you who have banked with us – and we have the names here that don't bank with us – you have to be fanatical about this execution. The number that used to keep me awake in America running Commerce is we were getting 21 million in-store customer visits a month. How do we make them happy? And our entire business is designed around these three things.

And, when you look at the Metro Bank model, we're a growth retailer, that's not a bank. The analysts that understand our model on both side of the Atlantic look at us as a growth retailer that happens to be a bank. Looking at us through the eyes of one of the big five banks here doesn't tell the real story. As you've heard me say before, we believe the value of the bank is its low-cost, core deposit base. We have the highest growing deposit base probably in the world, and the lowest cost of money. Nobody buys an iPhone because it's cheap. They're buying the iPhone experience. And experience is about what retailing is about now. We've always been about the experience, but we're hearing it in retail and more and more. Customers care much more about the experience than they do about pricing.

Culture – we've all seen – businesses – you can't have culture without the model. We've all seen lots of businesses where the model goes left, and the culture goes right. We have 3,500 people we've recruited in Britain who believe in our model, are trained to deliver it and create a culture to deliver it. We have a simple little phrase for that when we recruit. They either buy into our model of culture or opt out, as in opt out the door. Everyone here owns stock in Metro Bank, in stock options or other plans of one form or another. Being part of the entire story is what this is about.

So, we've got model, culture and then execution. How do you do it? How do you grow at these rates? How do you make it better? Well, first of all, you have to believe in your model. We are a dramatically growing business that gets to invest in our model, and we're competing with the big five banks, who are in a shrink model, which you all know. Over-invest, demand you have, we get it right every time. We have a little saying: 'It takes one person to say yes, but two people to say no.' This doesn't apply to loan approvals.

Our people are trained, 'Yes, Ma'am. Let me solve it.' Or, 'Let me go find somebody to solve it.' They're not allowed to say no. That simple little phrase changes everything. And, some of you have heard, we are on a never-ending quest to kill every stupid rule we can find, and it's a never-ending quest. Why shouldn't your branches be open when the customer wants it, seven days a week?

While we talk about the stores. The bank and Craig and his team is way ahead on the apps and all the mobile and the internet, because we have a modern IT. You can now open card accounts instantly online and mobile.

We love to talk about pens. Those of you that have been to a bank branch, you'll see this pen anchored to the counter. We've got to protect that pen. Last year in America, we gave away 28 million pens. Everything we do is about our model.

Instant debit/credit card – we can open a card account in store in 15 minutes. Free coin counting – we're the only provider of free coin counting in Britain. And when you lose your card, using your mobile app, you can turn your card off. And when you find it the next morning, you can turn your card back on. There's a million little things we do to make this a convenient and fun business.

And, this is the result that we've got in Britain. A brand recognition, with almost no spend, is 89% – Craig, I'm looking at it upside down here. Which one's the brand?

Craig Donaldson
The brand is the 88%. And the net promoter score is –

Vernon Hill
So, net promoter score is the way we all use to measure our brand. What percentage of our customers will recommend you to a friend? There is no such thing as a growth business that doesn't have it. So, ours is 88%, are you telling me Craig? I better get these right – 80%. Many of the large banks of Britain have negative net promoter scores. If you have negative promoter scores in any business, you shouldn't be in business. And in a country where the press used to say you're more inclined to get divorced than you are to switch banks, you can see from 2013, you can see the slope of the line as we're up to 1.4 million accounts now. And I will now turn it over to Craig who will talk about numbers.

Craig Donaldson
I thought I was covering on one slide before. So, it's always a journey and an adventure.

But the point is, by delivering the customer experience, by having people talking about us. They're talking about us positively. We win the customers, and by winning the customers, what we do is we win their deposits and their loans. And this is the growth rate that you get off it. This is the momentum over the last four years – three years. Consistent momentum – consistent delivery. I think that's the key to the model is the consistency of the delivery – the metronomic delivery.

And it's done multi-channel, it's done across all channels. You have to integrate and disrupt across all channels. I was just talking to Ian about – I used to work in Ipswich, working for BT in Research and Development. Technology is key to what we do. And what we're doing is integrating and disrupting across all channels through that integration. And that's the key. Real-time technology with data management differentiating and disrupting.

And I'm not going to go through each of these. The developer portal we launched a few weeks ago. Very exciting, and it's going to be interesting to see what gets built using the open APIs. It's been interesting looking at how many people have already logged on and started to build things, and who they are actually, is really interesting as well. And we'll probably talk more about that when we do the full-year results in February next year. It's only been out a few weeks.

And this is what I wanted to talk about as well. It's not just about having great mobile banking or great current account opening online or in store. 'Walk out trading' is something we launched earlier in the year. And I happened to be in Reading talking to a lady who owned a coffee shop, a few months ago. And if you've heard this story, I make no apology for being repetitive. And, she came in and I was chatting to her. And she told me she'd come in because her POS machine was broken (her merchant acquiring to take the contactless card payments). She'd phoned her bank up, and they told her it would be two weeks to get a new POS machine. And I don't know about you, but I use contactless for every coffee I buy now. So, she had to make a little sign saying cash only.

She'd been told about Metro Bank – how good we were. She came in to see if we could help. In 90 minutes, we'd gone through the Know Your Customer, the Know Your Business. We'd opened up a business current account. We'd opened up a savings account for her as well because she wanted to keep her tax separate. We'd printed her debit card. She'd set her own PIN number. Printed a cheque book because she wanted a cheque book, and that's her right. And we do print those in store as well, they're just not as high tech. And we downloaded her mobile app, set her Internet up, set her telephony up, and set up her POS machine, so she could walk back to her coffee shop literally in that 90 minutes and start trading straight away, while her incumbent bank was going to be waiting two weeks.

That's fulfilment. That's disrupting. That's using real-time technology to make customers' lives easier. And I know that business customer banks fully with us now and has left the other players. They probably haven't even worked it out yet because they've still probably haven't delivered the POS machine that works.

And we're expanding it. We're not quite in Sunderland yet, somewhere up there, but we will get there, we're going there. We'll start with building in Birmingham, I think towards the end of August. We're building in Bristol and Bath. We'll open in Bristol and Bath in September/early October. And we'll start building in Cardiff in the coming weeks. We currently have eight stores in build. We've already opened two this year. By the end of August, we'll have 11 stores in build, and we've got the strongest pipeline we've ever had. Solihull finally got signed off for planning. I think we start building there literally in a matter of days. The revolution expands, but it disrupts through technology and physical delivery. And they look great.

And of course, I can't talk about stores without talking about safe deposit boxes. It continues to happen. The regular consistent payment of the safe deposit boxes. They continue to be unbelievably successful, driving unbelievable footfall and engagement with our customers. And also covering 80% of the rent of all stores open more than 12 months.

And I wanted to share this with you. We shared this with you before. This is the Ealing store. I'm sure you know where Ealing is. For our colleagues in America, it's a suburb of London. It's a nice town actually. One of my best mates' lives there. But, it's not the best town. It's not the worst town. And this is the five years' actual delivery since we opened the doors. The actual delivery. You can see the store's grown over the last five years to over £400 million on deposit. By the way, this is a consistent story. This is the one we show you. There are bigger stores, faster stores, stores doing different things. This is just a typical store. But, look at the growth and the contribution. Consistent delivery. By the way, please don't get upset about – it's not £6.2 million per month, that's not the way the real world works, it doesn't work in a straight line. Sometimes you have a good quarter, a good year, and sometimes you have a less good one. But, look at that consistent delivery up to £400 million – £7.7 million positive contribution, up almost £2.5 million in year five. And that will continue. It's the consistency. The metronomic drum beat of the delivery, which is the key.

And, you can see it here, in our average store deposit growth. We did £6.3 million, £6.2million across the half. It's the consistency of it. We said our range would be £5.5-6.5 million. Strong, consistent delivery. Not every quarter will be £6.3 million, £6.2 million. Not every quarter will come in unbelievably good, but some will.

Vernon Hill

Craig, just for the Americans, go back to that slide for a minute. We want to remind everybody to put it in perspective. There's no data in Britain about this. But the average American branch grows deposits $1-2 million a year, and this slide shows us in dollars, Metro's growing $100 million a year. That's the magnitude of difference.

Craig Donaldson

And they continue to grow. The cohort analysis here shows the continued growth. And again, you've seen this, but it's good you continue to see this quarter after quarter. Every cohort continues to grow, and the cohorts grow faster and start bigger, because of the brand recognition and the network effect. It's working, it continues to work, and that's what drives the contribution up. And actually, we now have 57 stores, six trending towards profit and 51 trending to bigger and bigger profit every quarter.

A number we haven't shared before, that we've just brought out here, is for stores open 12 months or more. This is for all stores open 12 months or more, the average deposits per store is £276 million. And it's growing. I know it's growing because you can see the cohorts are growing. Where does this number stop? I do not know. I take you back to Ealing. Well, Ealing, typical town – typical suburban town – over £400 million.

So, this is a very powerful number and one that we'll look at as we move forward. And then, again, all stores profitable after 18 months. It's a little better than that at the moment. And they continue to come, the deposits continue to come. It's not just about the stores, though, I'll take you back to – it's about how you integrate technologies and physical delivery to create fulfilment for customers. So that person can walk out trading, walk out working, or just actually do it all online if they want to, because that's what we should do.

This morning, I had a gentleman in who wants to invest in us, and I was talking to him about our online banking. We won an award for our digital onboarding. And I told him on average, it takes 12 minutes to open an account online end-to-end. And he sent me an e-mail about an hour-and-a-half later saying, 'Actually it took me ten minutes. I've just brought your average down.' I will send him a thank you. I haven't yet.

It's the key to how we continue to improve, and we continue to win, through disrupting across every channel. And this is the growth you get off that.

So, we've had a 41% year-on-year growth on current accounts. We continue to grow significantly. As we've said, 40% deposits across everything. And, we did see a slight increase in cost of deposits in Q2. It happens. It happens sometimes. I expect that to stabilise across the rest of the year. Not overly concerning in any way. What we saw was a move in the fixed deposits, and so we saw an increase in fixed deposits as a percentage of the overall deposits that we won. So, like I said, that will stabilise. Not a concern. And we'll manage it as we would expect to manage any part of the business. David…

David Arden

Thank you, Craig. Good afternoon, everybody. So, just turning to some of the numbers, I get to do the boring bit being the finance guy. As you know, we've got a simple liquid deposit-funded balance sheet. 55% growth in loans, 40% growth in deposits leads to us Has delivering an 87% loan to deposit ratio without any reliance on wholesale funding. TFS, which as you all know has closed, doesn't touch the franchise, it's all invested in treasury assets. And the other point to make is that Tier 2 debt of £250 million our successful inaugural issuance, starts to diversify our capital base. So we have a simple liquid balance sheet, with very little liquidity risk, that enables us to grow our lending at low risk. You can see here the growth, the strength of the growth in lending. You can see the mix in the portfolio, so 68% retail at the moment, 32% commercial. Slight switch towards retail, it was 66% last year. But the key thing here, and the key point I want to make is 'low risk'. So our average debt to value is 60%, our non-performing loans improved to 17 basis points and our cost of risk improved to 8 basis points.

Now, we could drive short-term profitability, short term NIM by going up the risk curve but we're focused on the long term. And we can't manage the level of this growth whilst accepting credit risk that's too high. So we're very, very focused on maintaining low credit risk. And we are driving strong results. So, a 36% increase in customer accounts, 40% increase in customer deposits to £13.7 billion, 55% growth in loans to £12 billion and a fourfold increase in profit to 24.1 million. You can see there the trajectory of the profit curve and we're expecting that to increase quarter on quarter. We've now delivered eight consecutive increasing growth in profitability.

Because we are generating increasing returns. So, 45% growth in revenue, 33% growth in cost, strong positive 'jaws' has delivered an improved loan to deposit ratio of 85%, an 8-percentage point increase year on year.

Just touching on NIM, I know it is a big focus, we are focused on this measure, Customer NIM plus fees. We're currently at 2.68%. The target is 3%. Craig will talk about, at the end, how we bridge the gap towards our 2020 target.

Capital. Big topic of debate. We've now got ahead of the growth capital curve. The successful raise from last night, £300 million of core equity has driven our core equity ratio on a pro-forma basis to 17%. Combined with our successful Tier 2 raise, our total capital ratio on a pro forma basis is over 20%, well ahead of regulatory requirement but crucially, and most importantly, supports future funding growth. And these are our growth targets over medium-term. So 2020, £28 billion of deposits, £24 billion of lending and £23-55 billion of deposits. We are becoming a significant player in UK banking. I'll just hand back to Craig, who's going to talk through how we achieve those targets.

Craig Donaldson
Thank you mate.

David Arden
Thank you, Craig.

Craig Donaldson
So, this is therefore all about how we progress towards our mid-term targets, and that's what we're progressing to. If you look at how we're performing, we actually have 57 stores today, this was for the half year, we opened Southampton last Friday to a big party. It was a good turnout. Good fun. And if you haven't been to a Grand Opening, please come along to them, just to see how it goes. It's worth a visit, it really is. Built 56. Got another ten to go this year. Like we said, we've got 8 in build, we'll have 11 in build by the end of August. Trending towards our 100, we actually have 19 different stores in legals at the moment and perversely we could be in for an embarrassment of riches probably for the first time ever in store openings as we look forward. So I'm very comfortable that we're now trending towards the hundred that we should be, with what we're going to deliver this year and into next year.

Our deposit growth per store, £6.2 million, consistent delivery. We said it would be between £5.5 and £6.5 – we are, and I expect it to continue to do that.

Loan to deposit ratio, 87%. Slightly ahead of where we anticipated being at this point but well in the range of 85% to 90%. Our organic growth is so strong now. You know, the pipelines I'm looking into are so strong. I expect us to be at 90% a little bit earlier than I anticipated, and I expect us to run at 90% for a period of time because of the strength of both the deposit engines, but the lending engines have come through as well. And I think that's one of the things that has most pleased me in the first half of the year, it's how powerful the lending engines were now coming through. The question I remember about a year ago, was can you lend and can you get the lending going where you want it to be? Oh my goodness, yes. And as David said, at the right risk. And that's the key. Because any fool can lend but we want to lend and get it back and build relationships for the long term. And I expect us to be running at 90% over the medium term.

Customer NIM plus fees, we're 2.68% at the moment. We've got about 10% to find. There are three ways we're going to do that. One, we forecast we'd have two base rate moves between now and the end of 2020. Depending on which month we're reading from the Bank of England, we may have more, we may have less. But we have forecast that we'll have two base rate moves. That just allows the opportunity to bridge towards the 3%. We will see, as I've already said, a higher loan to deposit ratio will go to 90%. We might blip above 90% once in a while, but we'll always bring it back down to 90%. Nobody can be as precise as 90% when you're growing a business at our rates. And within that as well, the higher loan to deposit ratio, we'll also be seeing a pivot more towards commercial lending. As we open more stores, as we build more relationships, you're going to see more of the commercial lending come through, which is at higher yield and that'll be replacing the lower yielding mortgage market. There's no doubt we anticipated that mortgage yields would be higher at this point. There's no doubt that mortgage yields have made – well, they've eaten up some of our wiggle room on the 3% NIM plus fees, but there's no doubt we can get to the 3%. We've definitely see a stabilisation, it's about 18-20 bps higher than the start of the year. I expected it to go further, swap rates are significantly up, it hasn't. And we're a market taker, we're not a market maker in mortgages.

But, pivoting slowly into commercial, higher loan to deposit ratios, two Bank of England base rate moves forecast and built-in, and then the third thing is fees. Please don't forget the fee line. The first half of this year has – well actually, probably the last 12 months, the vast majority of all organisation in banking have been focussed on reg tech. And all the regulatory things that have been coming in from API gateways to GDPR to whatever, whatever, we are over that hump now. And I'm very excited about some of the services we will start offering our business and personal customers as we move forward through this year and into next year. We've just had a week of planning with MasterCard on some very exciting things for the future.

Those things will drive the fee income. You know, a good example will be 'walk out trading'. 'Walk out trading' drives fee income. And as that gets further and further adopted, we will see the fee income line start to significantly move, into next year. And that will drive the fee income with margin movement, pivoting slightly into commercial, slightly more, slightly more, and the higher loan to deposit ratio. Plus two base rate moves, into the 3%. That's what's going to happen. It's not a third, a third, a third, but it's not too far away from there either.

Cost to income ratio, 85%. Actually, it was 87% in quarter one, it was 84% in quarter two. A progression. The progression will continue. It won't be massively steep early doors. We're in negotiation on contracts, we're doing a lot around robotics and machine learning. These things will cut in, and as well as the economies of scale of growth, we will get the economies of scale of the application of technology and also the application of renewing contracts five years on, when we've got much more power in negotiations. It will help us to drive the cost to income ratio down.

Cost of risk, David said, you know, I think it's fair to say we're well within the boundaries there. Actually, I think that's a very important line that I think gets overlooked because that's the key to the future growth. By managing our risk properly, we earn the right to the future growth.

And then ROE. We are on positive ROE. We will get to 11.5%. We'll get to the 11.5% because we'll deliver the other things. That's how we'll do it. A bit of the wiggle room's gone, of that there's no doubt, mortgage yield has taken some of our wiggle away. It was always going to be thus, that's why we have a bit of wiggle. And then we'll power through into our 2023 targets.

I would say when you're looking here, in 2023, this is another place where we continue to grow. You know we want to grow to 200-plus stores. So when we're talking about these numbers here, there's no reason why we can't get to 4%, and over 4% of the market, which would be over £100 billion. And as we go through 2020, we'll start talking about 2027. And in 2023, as in 2020, we're still carrying a significant cost of growth and we'll continue to do that because the value of the organisation is growing in the right way for the long term. And that's what we're doing, we are focused on growing in the right way for the long term. And so, this 17 to 19% will continue to move.

Q&A

Vernon Hill

Thank you, Craig. Thank you. That's our presentation. We'll be happy to take questions from the audience, by phone and on the web. I'll start with the people here. Fire away. Can we have your name? Nobody wants to ask anything? Yes, sir. You.

Shailesh Raikundlia

Good afternoon, it's Shailesh Raikundlia from Panmure Gordon. Two questions, if I may. The first one was just on the timing of the capital raise. Obviously, not so far back in April you mentioned that there was – unlikely that you're going to raise any capital this year. I was just wondering what the sort of background to that is given the fact that your CT1 ratio has broadly come in line with expectations at 12.7%. Just in terms of, are there any regulatory pressures or, you know. So I'm quite keen to sort of work out why at this time, and not next year?

Secondly, just on NIM, if you could give us some more granularity, you were expecting, obviously, NIM to sort of progressively improve from the first quarter and it's obviously come down by 4 basis points. And I was wondering whether you could give us some more detail about where you see sort of both the deposit costs and mortgages, mortgage costs – and mortgage sort of yields going through for the rest of the year. Thanks.

Vernon Hill

Before I turn it over to Craig to answer your specific questions, let me make a big point. For some reason the British philosophy is raising capital is somehow bad. Raising growth capital for a growth business at multiples well above book is a positive, not a minus. At the growth rates we're experiencing, we need to be ahead of the growth capital curve, all the time and Craig will give you the specifics that caused us to do it now.

David Arden
Okay, just to pick up on the first point on regulatory pressure, that's absolutely not the case. We put on the slide there our regulatory minimum and we have a very strong relationship with our regulator. And there's no silver bullet as to the timing, really. I'd point to the healthy loan to deposit ratio and as Craig alluded to, the organic landing engine now is very, very strong and so we did a billion of lending in the second quarter. The pipelines are probably as strong as we've ever seen, so that made us think around timing.

The other thing I would point to is the Williams & Glyn bid. That's now coming into sharp focus. And I think it's fair to say that having a healthy capital ratio – to Vernon's point - growth capital ratio, will strengthen our already strong bid for the C&I fund on Williams and Glyn. So a combination of those two things made it, we felt now was the right time. I don't know if you want to –

Vernon Hill
Hey, Craig, do you want comment on NIM.

Craig Donaldson
Well I don't want to comment on capital ever again. So – and on NIM, so the cost of deposits going up brought down the NIM to a large degree. Obviously, we saw the 56-59 bps movers, we saw a shift from variable into fixed. That's stabilised now and we expect that to stabilise subject to base rate moves, which again, forgive me, are outside my ability to control. I expect to see the costs of deposit to now stabilise again as we take different action to make sure we manage the mix.

That was one and the other one was we actually just had a very strong pull through of mortgages. So if you look at what happened in quarter two, we had a skew into mortgages. It pulled through much better than normal. The draw down was much stronger. So we saw 70% of mortgages compared to the rest, where normally it was running around 62 to 64 and what that did was that diluted it down further and that's what drove the change. So I expect that to balance out as we go forward and we'll manage the cost of risk, and I expect it to stabilise, Customer NIM plus fees to stabilise, and then to start going up again.

Vernon Hill
Thank you. Next. Ian, do you have anything? Well, go ahead.

Ian Gordon
Thank you. First a simple one. You've just about given us the sensitivity to rising base rates. Is it linear beyond that or illinear? Secondly, you've spent a chunk of money preparing for the RBS dowry. Can you talk about that a bit more, firstly in terms of how you would see the P&L impact of spend versus receipts, and then secondly the scale of increment it might drive in terms of loan book. And then thirdly, again you've alluded to it already in the presentation, I was surprised by how small the step up in costs were in the second quarter. Should I be thinking of that as a one off in terms of less project spend in the quarter or does it give me a guide looking forward? Thanks.

Vernon Hill
Craig, before you answer the first question about Williams & Glyn, I want to just make a comment to the Americans on this call. This is a British Government plan to pay four banks, of which we're one, £700-plus million to offload deposits and loans from Royal Bank of Scotland. Craig.

Craig Donaldson
So I have a little deck. I'll share it with people to get all the dates if they want, just to be clear. Let me know. It's a few more than four. So rising base rates, I think, was the first point, if I may. It is not linear. It takes time and you've got to be very conscious of the market environment. So it just isn't linear. I don't think – we run very little interest risk on our balance sheet, so I'm not thinking you're getting – you know, I was talking to one CEO who told me he'd thought they'd get 12 bps, a base rate move. It's nothing like that. And I think if you did drive a 12 bps movement, actually what you'd see is just significant customer behaviour change, which would diminish the move anyway and you'd damage your customer experience - customer buy-in. So it's nothing like that per base rate move. But as the base rate moves out, it gets a little bit easier. So it's smaller in the early moves.

On the second one, the Williams & Glyn, and the money. There are two parts to Williams & Glyn. One is the Capability and Innovation Fund and one is the switching fund. Over the last eight years, we've grown from zero to having circa 150,000 business customers. We're growing at just under 1,000 business customers a week and we've entered markets and created competition and won market share, at the same time as creating 3,500 jobs. So if the Williams & Glyn Capability and Innovation Fund is about investing into companies that can prove they can enter markets, create competition, create jobs and create a better competitive environment for businesses, I think we should be in a pretty good position. Also, unfortunately, let's face facts, there's been a little bit of, some other organisations are faced into other issues which will probably diminish their opportunities to win. So I think we are in a very, very strong position to win a good amount of money out of the Williams & Glyn fund. And we will be bidding. Part of the money we've spent already is to have built a bid that is very, very strong, and so some of that money was to do a one-off exercise to help us get the market research to prove that we should get the money because we will genuinely use every penny to promote competition and innovation.

We then go onto the switching. There are 240,000 business customers who are going to be told they can leave RBS. 'Please, if you don't mind, off you go'. It's a bit bizarre, forgive me, when you try and draw it out logically. And RBS have to pay the banks, who can pass it on to the customers, that money to get them to move. 240,000 coming out in a three to six month period is huge. And therefore, you know, I don't know how much we could win. Let's say just 10%. Remember, the big banks aren't part of this. So Barclays, Lloyds, HSBC – and the one I've forgotten, which is very bad of me – they're not involved. They own 80% of the market. So the other 20% has to somehow swallow these 240,000 business customers.

If we just got 10% of it, it's 24,000 over a six-month period it's a doubling of performance in one week, you know literally, you got to go from 1,000 to 2,000. So some of the money we've been spending is on trying to build specific teams, that would be just focused on Williams & Glyn so we can manage what might happen off the back of that.

We were told it would be launching in April. We were then told it would be launching in September. We were then told it would be launching in… we now have clarity. So the money that we're spending you'll see is slightly changed because we'll adapt the clarity. The big document's ready to go and we must be in a strong position to take advantage of it.

And when switching starts, we'll be in an even stronger position to take advantage of it. The growth capital we've raised. Undoubtedly, will help us take advantage of that. Does that answer that Ian, for you? And then cost, David, I've talked enough.

David Arden

Yes, on cost, I'm glad you think it was a good quarter on costs. When I think about cost to income ratio towards the target of 60%, I wouldn't think that's going to be a linear progression. It's going to be a non-linear curve, because we need to invest to drive the scale. And we will continue right through the plan, right through to 2023, to continue to invest in the growth of the business.

So there'll always be projects on the go. There'll always be new stores on the go. You know we've got 8 in build at the moment. That will be a significant drag as we head towards second half. And, but as we drive scale, new stores will become a lesser proportion of the overall balance sheet and that's the gearing that we'll drive through the P&L over the next two to three years.

Vernon Hill

On that subject, we keep talking to you about deposits per store, because it's tremendously flow through on the income statement. And these very high deposits per store are very important. The Americans will know that when I had deposits roughly equal to what we project in 2023, I had 500 stores and we're going to do that in a hundred and a half. That really flows through on the expense line.

Joseph Dickerson

Hi. It's Joseph Dickerson from Jefferies. Could you talk about your online current account opening and the impact it may or may not have had on deposits and how you think about that, as you think about 2023 and beyond, the impact that might have, in particular, on your cost income ratio? Because that's presumably quite low cost:income ratio of product, if it takes off. And then the FCA this morning put out a consultation paper which, given your results and your capital raise, I wouldn't expect you to have read – it talks about for old accounts, the fact that savers receive less from their bank and therefore seek consultation on introducing a basic savings rate. So I was wondering what your thoughts are on it. Not sure it really applies to you, it could have an industry impact, so kind of what do you think about that? If anything, it seems like it shows that there's only the choice of competing on price. And then lastly on costs, to put it in a different way, so cost:income may not come down linearly, but if we think about your cost growth has been far less than your asset growth now for some quarters, it decelerated year on year to 30% in Q2 from 36% in Q1. I guess, can we expect that cost growth will continue to at least trail asset growth.

Craig Donaldson

Shall I answer the first two and then hand over to David. So online we're seeing a good number of online accounts, it's working well. We haven't advertised or done any marketing push online yet. We've been just working it through and making sure it's smooth – what's been interesting is 70% of the accounts that have been opened, have been opened around our stores.

Now, one, I think that's because of the very strong brand recognition that we've got. Now we got over 88% brand recognition in our markets and 58% per cent outside of our markets. So I think that we're seeing a lot of people who haven't come into store who've opened accounts online and therefore it's kind of people who want to join us, it's driven a little bit of productivity improvement in store, and it's driven a lot of new customers who wouldn't have come in store, but who want to be part of the brand and who want to be served by the brand.

And then we've also seen those customers, a reasonable proportion of them, rather than go and wait for the card to turn up, pop into the store and collect their cards, so proving that bricks and clicks coming together is attractive. The deposit numbers are very small, because what we find is the people who really want to open their accounts online, possibly aren't the people who have the significant numbers of deposits to place.

And what we're watching now is the cohorts and how the cohorts develop over time from the current accounts. And so it's very early doors still on the cohort. We're definitely seeing the deposits pick up in the cohorts that are sort of four-five months, but it's still very early doors. So that's on online and very, very strong. We've also seen strong pickup on things like opening savings accounts on the mobile app where customers, I think it's three clicks or two clicks, and you've got your new savings account on your mobile app.

We see strong pickup on things like that, where customers choose to self-serve in the moment because it suits them to move their money around. And the mobile app is just brilliant for that. The FCA thing, thanks for that mate. We have something called our Saver Promise that no new customer will get a better rate than an existing customer, and we've stuck to that because, look, rates move. But what customers really hate is where they thought they were getting 1% and they turnaround and turn back and it's down to 0.1%.

We would never do that because we treat our customers fairly and we want to create FANS. So when our customers turn round they will know, they will be getting at least a good a rate as new customers if not better, and we've always followed through on that. And customer like the fact they can trust you and that's our Saving Promise is to customers. So I don't think it will have an impact on us, at all.

I think the fact that I worry about regulators starting to price fix, is dangerous. I was talking to somebody this morning about should they start charging for current accounts? But the point is at what price do you charge it. And who says, and why? And also if you brought in a fixed charge, of let's say 5 quid a month, who do you think really wins off of that at the moment? Well, the people who have got all the current accounts who can suddenly overnight make£50 million more a month. And actually if we've all got to charge the same price how this in fact creates competition.

So I worry about price fixing, if we're not careful, coming from regulators who think price is the answer where actually it's choice. And what we need is free markets to create more choice. We need free market to create more competition. What we need to regulators to do is to help create that level playing field. Deceleration of cost?

David Arden

On cost Joe, I think you can expect improving cost:income ratio quarter-on-quarter from here on in. The growth rate as we ended the half was better than the entire half. So whilst I hesitate to say it's going to be 'X%' quarter-on-quarter because we continue to invest and there will be new projects and they'll be a drag on stores etc., but you can expect an improving cost to income ratio.

Vernon Hill

Thank you, Joe.

John Cronin

Thank you. It's John Cronin from Goodbody. I have three questions please. Firstly on deposits, look we can see your very strong NPS score clearly lots of brand value and very strong deposits growth year-on-year and indeed quarter-on-quarter. Now, when I listened to you talk about the value of the brand and retail proposition I am just interested to understand, with the deposit growth rate slowing down a little, how I suppose you expect the absolute growth in deposits to take off substantially from here? And I ask that in context of your 2020 targets and indeed your 2023.

Vernon Hill

Are you done with that question? I can answer that one.

John Cronin
Well, I just wanted to say that you are going from £2 billion in the half year, in the first half of 2018, to I think £5.5 billion annualised over the next two and a half years to get to your 2020 target. So, it just seems like it must elevate significantly from here to get to that number?

Vernon Hill
Well, first of all, your deposit growth percentage goes down just because of the law of big numbers. So that's why we give you growth per store because it's not affected by the law of big numbers. And Craig will tell you how we get to the numbers, it’s pretty much math, number of stores times the growth per store. And you can see our growth per store per month is not going down.

Craig Donaldson
I actually disagree with you, John. I don’t think it's slowed down. The point is you have variance as you go through quarters. It's the just way it is. So if you look at this, if you look here, you'll have quarters where its slower. It just happens to be. You might have won a big deal or you might have somebody who’s buying another business or sold a business so these things happen.

I mean the fact that you're growing at 6.3, 6.2, 5.9, 6.6, I think it's a consistency of stores. And so what you see is if you open more stores, if you keep this consistency, your growth rate slows through the big numbers, but your absolute numbers don’t. And if you go back, he said, hoping it's not going the wrong way…

Vernon Hill
I just want to say one thing about it, when people look at our store number growth, some people take consumer banking and try to extrapolate the numbers. Remember half of our deposits are commercial and that percentage is probably going up. But Craig you have a slide that talks exactly to the issue here.

Craig Donaldson
So in 2015 to 2016 we grew by £2.9 billion in the year. So that was a £2.9 billion growth in the year. We've just grown by £2 billion in the half year. So you take that change, you just do that sort of absolute number again, and you get to 27.5 pretty easily actually. So that's the number I am very comfortable with. And I would push back quite strongly on saying it's slowed. It hasn't.

John Cronin
No, no, I suppose my point is less that it’s slowed, but it’s going to become much more demanding to grow, to keep up the growth rate, get to that target.

Vernon Hill
So why do you say that?

John Cronin
I am just –

Vernon Hill
What facts do you have to support that?

Craig Donaldson
I would say John and if I may and I am going to go the wrong way again. If you look at that growth rate, that curve, obviously that's a six month growth where that’s a year. You put on where we're going to end up. I’d say that we’re evidencing our ability year-on-year to step up and we've got eight years evidence now of our ability to step up and get better.

And if you go back. If you look at where we’ve got the stores at the moment and the markets we play in, we only play in 34% of the business market by geography. And therefore, I’ve got 66% of the geography still to go for. If you think about the geographies where we played last year, we won 17% of all business switches, so one in six businesses joined us, not for freebees, because we charge straightaway, they joined us for the service and the convenience.

So then when we're opening in Bristol and Bath and Cardiff. We open in Birmingham. We open in Manchester. We open and open. The other 66% per cent of the market opens up to us. It’s not there for us at the moment, but it will be. So I'd say, if you think about it, those growth rates in such a small part of the market are spectacular. And how exciting is it that we can take these growth rates into the bigger markets and win more.

If anything, you'd say Craig well don't tell him this. You'd say Craig, you should be putting your deposit targets up, not down, because of the markets you can enter into. So one is geography. We have 66% of the market still to go for. Secondly, you have scale. As we grow we can win bigger customers. We can win bigger businesses and bigger businesses have bigger deposits.

At the moment, with our scale we can win up to a certain amount of business customers. But as we grow we win bigger and bigger and bigger customers, as well as all of the customers we already win today. So we also see significant growth in our existing markets with new customer opportunities.

And then the final one is we don't have a credit rating yet. And having just in the debt raise, the equity raise we'll go and start the work to get a credit rating. And the credit rating, without having a credit rating we're blocked out at the moment from local authorities, from hospitals and from a lot of charities. That will all open up to us as well.

So one would say, Craig, how the hell have you manage to achieve all of this when you've only had such a small part of the market to go for? And I'd say you're right, and you can tell my boss.

Vernon Hill

John, one more question, but I want to say one other comment. This is not my first time doing this, and we wouldn't put out these targets unless we were highly confident we could make them. Go ahead. I'll give you one more.

John Cronin

The second one is on capital. The point you've made on IRB in terms of credit migration to the IRB credit risk models in the second half of next year. That seems quite a lot more optimistic than other challenger banks have messaged in terms of their expectation around timing, which clearly ties in with whether or not you need more capital next year. So what gives you the confidence? And when I say the other challenger banks, with the exception of obviously CYBG who has been using those models for almost a decade under previous ownership. What gives you the confidence at this juncture that you can get across that quickly, or do you think everyone else is just giving an overly pessimistic message and that the regulators are giving you that sort of comfort.

Craig Donaldson

Well the regulator's been really good. They've been really sensible, really helpful actually. And I would go on the record and say thank you to them. All through last year, and significantly into the year before, we were meeting with them at times monthly, at times, quarterly as we built our models, as we built all the work. And they were challenging us – so rather than putting in the application and then working it through, they were involved in the periods we were going through, so they could say 'actually we'd like to see that', 'we think you should do that'. So that's one, we've been working with them now for gosh over two years on a monthly or quarterly basis in meetings. And it's been hugely helpful. I agree with Martin Stewart that before we started this process what I didn't want to do was run off and do it, to then put our application in and then have them say, actually we wanted this, this and this.

So by working with us ahead of the application, they've been superbly helpful and fair play to them, I do want to say thank you. Also I met with the PRA at the very highest levels before Christmas before we put in our application to say, 'are you comfortable we put our application in?' You know the way it works, you don't get turned down, you just get asked not to apply. So I was asked were they comfortable to put our application in? And I was told yes, they would welcome our application and we put our application in then because I like to take soundings, because that's sensible to work in union with the regulator.

We're therefore going through the new process. They were very kind and they came out if you remember, I think it must have been now 12 months ago, possibly 18 months ago with their new accelerated process where they have the different stage gates you go through. We're working through that. We've been working through that with them all along.

And so all we're doing is taking their sounding, their feedback. The work they've done with us upfront and also working through the new stage gates and the 18-month process that they came out with, to say they believe from application to implementation will be an 18-month process. And we're just working through that with them.

And that's what we're doing. It's going well. We've built a massive data mart, we're spending £18 million on this, which is probably the largest project, most money we've spent since we built the bank, because it is important and it's also very important we get it right. And I am very proud of the work that Aileen and her team have done on this because it's very, very good.

And the regulators accepted how good the work is. So I don't see any issues at the moment, he said, holding his hands up. We're having good meetings with the regulator all the way through. We're working it through. We are going through the new process. We are the first. We were the first, I was told, to be going through the new process. And they've been very good and very sensible.

And it's interesting when you talk to Treasury as well, there is a want to create a level playing field. And there's an acceptance that capital is the place where it's the least level. And I think you're going to see people go through this process, and then I think you're going to see the case studies that the regulator and treasury will want to do, to show how open the UK is to create that level playing field for new banks. So, I have no reason not to be positive.

Vernon Hill
Thank you, Craig.

Craig Donaldson
When we look at our curve, we've built in some fat to manage it, because you set a date, you work towards that, but yeah we definitely got some fat in there especially as we raised a little bit more than we thought. But so we have opportunities, we have things we can do. So personally, we're going to get it, exactly when I can't say the date for you, but I am very confident we can work into that.

And I am very confident that we feathered in how we can work with that. I also don't think we'll get anywhere near somebody like a Virgin Money. I don't know what Clydesdale are going to get. But I don't think we'll go down to 13%-14%. And I think the risk-based approach will be taken and you'd see it sort of taken in slices. So, we've taken a very prudent approach to where we think we'd go originally and then how it will work down over time.

Vernon Hill
Okay, is there anybody out here? Sir, you are?

Chris Cant
Hi, it's Chris Cant from Autonomous. Thanks for the presentation. I just wanted to come back to your ROE targets. So it's the second time you cut your 2020 ROE target and you now a target 11.5% from 20% at IPO. And you've attributed this on both occasions, when you cut it, to the fact that you've raised equity, but I sort of struggle with the rationale that it's because you're raising for growth so that's why you're cutting your return target. If I think about your 1H 2018 capital position if you hadn't raised capital last year, you would have just printed a sub-3.2% leverage ratio. And if you hit your 27.5 billion deposit target to 2020, your balance sheet is going to be about 34-35 billion of asset, so again if I exclude the capital raises, if I add in consensus earnings, which look pretty aggressive to me, you'd be about 2.75% leverage ratio in 2020. So as far as I can see the capital raises that you've done are essentially absolutely required to fund the growth that you've always targeted. And I struggle to understand why you attribute the cuts to the return target to the fact that you've raised equity. This looks like it was always going to be needed as far as I am concerned. So, am I missing something there? And is the real reason for the ROE target cuts not just that the revenue environment is a lot tighter than it was when you IPOed. That will be the first question. I've got a follow-up on that.

Vernon Hill
Okay we're running out of time here, Chris. Let's get one question. I want to get a few on the web and on the phone too.

Chris Donaldson
Can I come back to Chris then on this? So Chris, I think your challenge is a really good one. I believe we set 18% ROE not 20%, first of all. I genuinely believe that was what we said. Really believe that.

Chris Cant
Okay.

Craig Donaldson
Secondly, there's no doubt, what we've done is when we went out with the ROE targets, we did not have things like TFS, and TFS and these things have come in and skewed the market. And therefore, we have definitely we have definitely driven up our loan to deposits ratio which has definitely driven up our risk weighted assets.

So you add TFS, you add the yield market being tight, the increase in our loan to deposit ratio is we drive for the other targets. When you put it all together, yes, that is why we have raised the money for the growth, because we've grown our lending faster, we've taken TFS and we have kind of decided how we would deliver that long-term growth.

If we didn't take TFS, it would be fine. If we hadn't put our loan to deposit ratio up, but we did do that in response to the yield, because that's what you do, you have to pivot as you drive towards these targets. Now what we are doing is building the bank for long term. I didn't know about TFS. I didn't know that mortgage yields would be where they are. I would always want to build the bank prudently, which is why we raised the capital.

I am not saying anything on capital other than that, simply because of what I said in quarter one, and I don't want to repeat.

Vernon Hill

Thank you, Craig. Let me get our friends on the web onboard. Here is a comment/question from America from Cohen Private Ventures. Two questions, 'was yesterday's equity offering oversubscribed and if so, by how much?'

We set out – first of all we raised money, we call it capital for growth. It's not capital to fill a hole. It's about growing the business. We set out to raise £200 million. We had an order book closing last night at £460 million. And I remind everybody that it was at the market close last night.

The idea of discount from the market price is an anti-American view of capital raising, and that's not going to happen. So the answer is the order book was 460 and we raised our funding from £200, that we originally planned, to £303 million.

The second part of this question is 'why is there a distinct difference between the coverage by the British bank analysts and the American bank analysts?'

So of course I'd love to talk about this. To understand Metro, you have to think about it as a growth company that happens to be a bank. To be fair to the British bank analysts, the Americans have seen this act before, when we did it at Commerce. So they've seen more clearly that this is a growth business, with almost an unlimited upside, as opposed to some of the British analyst who look through the lens of Lloyds, of cost cutting and non-growth. This is a growth company that happens to be a bank. It trades as a growth multiple and it raises capital at a growth multiple.

One more question from America, if I can read it, from Basswood. 'It looks like the return on capital at the Ealing store is 30% even with central cost. Is it a fair assumption that over the long-term Metro's profitability will trend towards that, as the store network matures and seasons?'

We're not targeting above that number, Matt. There is no question. And the second question is 'will higher rates help our return on capital?' Every bank does better with a steeper yield curve, much more than the level of rates. And there is no question if the yield curve steepens the return on capital, the earnings of Metro will return. It's almost amazing we're making these returns on such a flat yield curve.

Let me see if I have any more on the web. Is that it? Okay SNV Capital, 'you planned to open 12 stores in 2018. Any potential delays in this plan?'

We're always 10,11,12. There's a lot of development issues going on and we should be around that number.

'With the strategy shift to own the real estate, leasing spent. How is your total cost of opening the store changed?'

Well first of all the cost of building and acquiring the store, and opening a store, are two completely different things, so you shouldn't unite the two. We would love to own every site, but unfortunately, in particularly, London, people don't want to sell to us.

'What does it cost to fit a store out?' I think I our average is in the £3-£4 million range. There is one more here Jo. I can't read it.

Michael Knipp, 'can you explain the IT advances that you believe Metro has versus the big five banks? Why is it that the other major banks cannot easily change and match Metro?'

Craig Donaldson

We have a real time technology that moves data real-time which is up-to-date, which is upgraded and patched regularly. Where, you know, in other organisations I've worked, one of the organisations I worked, we had 29 platforms, all legacy, all with their own data structures, their own data warehouses underneath them, with no data lineage or data structures understood. So, you couldn't move things between them; you had no single client view. Now, it's moving on a little bit, but what we have here, is we have one single Oracle database. Obviously, we've got three incidences of it to make sure that we have resilience, but we have one. And all of our data is held in that one. And therefore, the ability to make real-time decisions and real-time actions to move data real-time, because you have one data structure and database, it's fundamentally different. The cost of integrating 29 platforms, 30 platforms, whatever it is in the large banks, it's a five- to seven-year gig in my view. It's not easy. You can get the technology right, but you can't get the data right. And it's data that creates the problem.

And therefore it'll – you know, I think organisations have come out and said they're going to do part of it, but actually having the ability to start with proper data lineage and data structure from the very first principles of how you set up technology is the key. And actually, like I said, it's perversely not the technology; it's the data that differentiates you. And that's what we have.

Vernon Hill

Well, Craig, let me translate that to America. Now, there's no such thing as a modern core banking system in Britain, until Metro Bank evolved. The major British banks write their code, it's an antique system. We installed an outsourced package system that can handle scale, it's a tremendous advantage not only in growing the bank but in adding new fintech apps to it. Can they switch? Can they improve? Well if you can change all 4 jets at 41,000 feet, I guess they can, so we'll have to see if that happens. So far, no-one's been able to make the change.

Another question is, 'has the success of your online banking changed your view of the number of stores required?' That's a great question. I think generally speaking, on either side of the Atlantic you need less stores because mobile particularly does away with the transaction needs. But remember, the purpose of stores is to open accounts and acquire customers. That's what the stores are about. So it turns out that this is a plus for Metro. I had 280 stores in Metro New York, and probably would have gotten to 400 in Metro New York. You would never get to that many in London, because there is no suburban sprawl. So you're going to have fewer stores with much higher deposits per store, and luckily you don't need as many stores because mobile particularly takes care of a lot of the routine banking.

Craig Donaldson

What we found is that actually we're mobile-first for personal customers, but for business customers and commercial customers, definitely it's more desktop-first. And therefore it's how to you take a strategy forward. Business customers are migrating more and more themselves onto self-service, but the stores become a community hub. And the ability to use our stores, whether it's the 27,000 schoolchildren that went through the education programmes last year; whether it's the 3,000 charity and community events we ran; whether it's the VAT training for small business; the stores allow us to be part of the communities. And I think that's how real estate needs to be thought about going forward. It's your brand; it's your community outlet; it's your opportunity to deliver fulfilment at point of sale; and it's also all the things that Vernon said. And that's how we think about our stores.

Vernon Hill

Okay, do we have any more, Jo? All right, can we have that one?

Michael Perito

Good afternoon. Thanks for taking my questions. I just have a couple. Obviously, a lot's been covered. I guess one: the expense side on the store front is a little bit more clear, as you guys are pretty open about how many stores you're opening, etcetera. But Craig, can you maybe give us an update on year to date on what you've spent on the tech side and what the outlook for further investment is specifically as it relates to kind of the digital and mobile app piece of the business?

Craig Donaldson

So, yeah. We've spent probably over £35 million in the first half on technology and technology developments. A large, large percentage of that actually in the first half was on things like GDPR, the PSD II – sorry, the Personal Services Directive II around payments, and building the API gateways, getting the fourth AML directive in, and it goes on. We have spent money, we're literally in beta – we're just starting beta on our artificial intelligence called Insights, which is part of the mobile app, which is an Israeli fintech company we've integrated with, which is very exciting. So we've spent – I'm not sure a lot of money on that, because that's the integrations, but we've spent about 35 million so far this year. I wouldn't expect that to slow down, so you'd be looking at 70 million by the end of the year. We do CAPEX much of it, OPEX much of it, and the CAPEX curves, when you're doing the mobile, you're CAPEXing it in 24 to 36 months because the market moves so quickly. Whereas if you're doing a T24 which is our core banking, where you've got a ten-year contract, you CAPEX it out over longer, so you've got a number of different parts in that. But from a cash burn, about 35 million.

Vernon Hill

For the first half of the year.

Craig Donaldson

Yes.

Michael Perito

Right. All right. Helpful. Thank you. And secondly, on the capital raise and the ROE target discussion. I mean, obviously there's a relationship between the two, you know, the higher your ROE, the more capital you generate internally to support your own growth, but obviously there's quality growth opportunities out there. You know, the one thing that does stick out for you is, it seems like some of these loan portfolio purchases might have pressured your capital base a little bit, and certainly, you know, I think most would agree that the deposit is the value of the franchise. I'm just curious what the outlook for those is, and if, you know, those moderate, do you think that there'll probably be a little bit more, you know, runway with this capital raise than prior at this point?

David Arden

Michael, hi, it's David. Now that our loan deposit ratio is 87%, I don't expect us to be doing any more book acquisitions, unless of course it's so value-accretive that we can't say no to it, but that's an area where they're as rare as hen's teeth, so I would assume going forward no more book acquisitions. The organic growth is coming through and we're expecting it to continue.

Craig Donaldson

I'd just add to that as well, and do what I said I wouldn't do, add to things. Is, what we also have is our increasing profitability. Our profitability grew, like you said, fourfold half-year one to half-year now. And as we are increasing our profitability our capital growth is covered by that more as well. So we do get the advantage of increased profits slowing your usage, consumption.

Vernon Hill

Michael, do you have anything else?

Michael Perito

No. That's it. Thanks, guys. Most of my other questions have been answered.

Vernon Hill

Thank you, Michael. I have one more web question, I think. What proportion of deposit growth is originating solely from online accounts. Do we know that? We don't know that because – oh, I'm sorry. We do know.

Craig Donaldson

It's absolutely tiny. Because as I said earlier, we only originate online. The vast majority of it is current accounts, and the cohorts there are very young and the deposits haven't grown. We do do some fixed rates, and I think it's a couple of hundred million. It might be a little more, 300 million, across the 13.7 billion. So it's not significant.

Vernon Hill

Okay. One last question. 'There's been a reduction in value of whole-to-maturity assets. Is that due to lower valuations or a change in the composition of the portfolio?'

David Arden

Change of composition of the portfolio.

Vernon Hill

Change of composition of the portfolio. All right. Thank you all. Thank you all for coming. I'm sorry, we have one more phone.

Dylan Gorman

Thanks. Congratulations on a great quarter, you know, another tremendous success. My question's about operating expenses at high-level based on the Ealing example, if we assume £1.8 million of store expenses per branch, that implies, you know, annual store expenses of £100 million. And, you know, from there you can infer central OPEX of about £220 million. Now, assuming those figures are roughly correct, maybe you could talk about the £220 million of central OPEX. And it'd be helpful to comment on kind of what the main categories of that are and you know, whether you expect that to be reasonably flat, or might it grow in the near term?

Craig Donaldson

Thank you for the question. So operating expenses– I think 100 million is a little light. I think Ealing at 1.8 a – you know, rents here, Kings Road, Liverpool Street are a little stronger, but then you get a lot more deposits in those stores. You know, it's fair to say Liverpool Street is – not Liverpool Street, sorry, Cheapside that was opened about the same time is doing very, very, very well on deposits but we pay more rent. So, I think the OPEX is a little higher overall, but not enough. Where you have your money spent is operational risk, credit risk, compliance, a lot of the back-office stuff, telephony, and then we talked about technology as well. So if think about it it's the core ones, you know. We've been spending a lot of money on our fraud management and how we make sure that we protect our customers.

So, technology, operations, banking operations, lending operations, fraud operations, you also then get finance which is obviously a massive cost to the business. Adding value every day. Treasury. So it's actually all the functions you'd expect, but you also then have quite a large amount of that money is the cost of growth. Because what's not in the numbers you've put is the eight stores where we're paying rent and everything else on it now, where we've got four stores where we've got all the colleagues in who are in training. And so if you look across the year, there's a significant portion of that 220, probably 25%, is spent on getting us ready for the future and making sure that we've got the right growth opportunities.

Vernon Hill

For the next call, we'll break this down into percentages so you can work with in the models on it, obviously, that's what you want, and we'll try to help you. All right. Are we done> – one more.

Jim McCormick

Yes. Vernon and Craig, as people observe what's happening in New York, and of course with your background at Commerce, Vernon, what's your sense of what's happening now as some of the major banks are announcing a reversal in their plans to shrink branches and add some new ones, which is a shift, and it's a surprising shift for some, because while that shift is occurring, of course the increased use in mobile and digital is also increasing. So someone's finding out at these big banks, apparently, and I'm wondering what your view is, that branches still matter.

And then secondly, related to the cost of branches, the importance of the safety deposit fees and how that can mitigate some of the expense.

Vernon Hill

Thank you, Jim. For you guys who don't know, Jim is a famous bank consultant in America and a long-term shareholder of Metro Bank. First of all, everyone assumes that every bank branch is the same. That would be like assuming every shoe store is the same, every restaurant's the same. There are differentiators in bank branches. Obviously, the Commerce/Metro model is clearly different. So, there is no statement about what's true for all the banks. Chase announced that they're building 400 bank branches across America. They say, as I've been saying for a long time, it's the combination of the stores, the online, the mobile, the telephone, the experience, it's the united experience. No-one buys an iPhone because it's cheap. They're buying the Apple experience. And that's what the Metro Bank model is. And if you ever had any doubt about this, all you have to look at is the deposit growth per store of Metro at £100 million. Jim'll confirm that the average in America is one to two. The people that have the best stores, the best online, and united in one experience, are going to get the best results.

And Jim mentioned about safe deposit boxes. As an aside, we can prove to you that the more we pay for rent, the more money we make on that site. Because the best site is almost always worth the money. Although I get pushed to the test fairly often on that one in London. But this idea about everybody's closed their safe deposit boxes, and it almost covers our rent, is sort of a UK gift to us. Anything else, James?

Jim McCormick

Thank you.

Vernon Hill

Thank you. Thank you, Jim. Anybody else? Thank you all for coming. Good afternoon.