Metro Bank Q1 Trading Announcement

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

Presentation

Vernon Hill

Good afternoon from London to all those on the call, and good morning in America. We're pleased to begin the first quarterly financial call since Metro Bank has been a public firm. With me is Craig Donaldson and Mike Brierley. I just want to highlight some of the points on the press release, and then we'll be happy take any questions or comments.

As you all know, we completed a £400 million capital raise in the first quarter, and then listed our shares on the London Stock Exchange. On the financial results, this has been an all-time best quarter for Metro Bank since our inception. Deposits are up 75% year over year to approximately £5.9 billion. Most of you know that we like to report deposit growth per store as a very good way to measure the growth. And in the first quarter, our average store grew deposits £6.6 million; our highest quarter ever, in the first quarter which is usually our worst. That £6.6 million per store translates to roughly $9.5 million per store per month. Loans also showed a strong increase growing 125%. For the year revenue was up 60%; our losses after tax have trended down to £7.9 million from £10 million in the last quarter, as we've explained to you how we believe we're on the path to profit this year.

The press release did not include the per share loss number, which is 10 pence a share in the first quarter of this year versus 14 pence a share in the first quarter of 2015. We opened our 41st store; we've included in the release financial information about loans and deposits. Customer account growth is very strong, and at the end of March was over 717,000 accounts. Capital is of course very strong after our capital raise. I'll remind the Americans that it's not normal for British companies to report every quarter. We will be reporting and doing calls every quarter, but the more complete financial results come out on a semi-annual basis. That's our discussion of the results; we'd be happy to hear from you now.

Q&A

Peter Lenardos

It's Peter from RBC in London. Just two questions please. First, I know that you opened up your 41st store in April; just a question on how you see your store growth progressing throughout 2016 and into 2017?

And the second question I have: I know that your capital ratios currently are very strong, but with the very high rate that you're growing at, do you stick to your guidance that no new dilutive capital raises will be needed? Thanks.

Vernon Hill

Let me answer about the store count, and Craig will talk about the capital needs. We haven't said exactly the way you described it, Peter. We expect to open eight new stores this year. It's a relatively low year; it's not part of the plan, it's just the way the sites developed. We're in good shape for next year and we expect, going forward, to open at least one new store a month.

Craig, you want to talk about capital?

Craig Donaldson

No, Peter, it's exactly on guidance as we said. So, there's no change to the guidance we gave when we were with the analysts the last time. Which was, that we wouldn't look to raise any dilutive capital prior to the 2020 guidance that was given; however, we may raise some debt.

Joe Dickerson

Hi, good morning, guys. It's Joe Dickerson from Jefferies. Just a quick question for you: can you talk about, firstly – give us any colour on safe deposit box usage in the first three months of the year?

And then secondly, any flavour around seasonality? Vernon, I think you mentioned that the first couple months of the year were weak in deposits per store per month, but that £6.6 million is such a stellar number. I mean, how should we think about that number moving – going forward quarterly throughout the year? Thanks.

Vernon Hill

So let me answer about safe deposit boxes, and Craig can talk about performances for the quarter. Safe deposit box use is going up, its coverage of our base rent is going up all the time. We haven't released the number for this quarter but we will in the next quarter, but you can assume that our usage and coverage ratio is still going up. Craig, you want to talk about your first quarter?

Craig Donaldson

Joe, I think it's safe to say we're all very pleased with the deposits per store. I think, as we go forward, we will continue on the guidance we gave of around £5.3 million up, and it will trend towards that over time.

Vernon Hill

Joe, to be more specific, the commercial component here is getting stronger all the time, and I think that's what you're going to see and you saw some of that in the first quarter. As you probably know, you have less days in the first quarter, and generally deposits are our slowest growing quarter primarily because of tax season, so we were extremely happy with the growth in deposits per store. I translated the numbers to American dollars, Joe, and on an annual basis, it's $114 million in deposit growth per store. You and I both know that the average in America is $1–2 million a year a branch.

Joe Dickerson

It's clearly very strong. Yes, it's a great result.

Jefferson Harralson

Hey, thanks, guys. Is there anything in this quarter that makes you feel better or worse about being profitable by later in the year? I missed the opening comments, so you may have mentioned it in the opening comments.

Vernon Hill

No, we didn't say anything, but I'll pass that to Craig.

Craig Donaldson

No, absolutely on track with guidance we've given previously: we'll go into profit on a month-by-month basis later this year, and we will be full-year profit next year. So, it really came through as we hoped; a little better on deposits, but came through as we hoped.

Jefferson Harralson

Okay. And as Mike is there – just for my model purposes, do you have the ending share count handy? I didn't see that in the report.

Vernon Hill

Michael, what's the ending share count?

Michael Brierley

80.28 million shares.

Vernon Hill

And Jeff, were you on when I added the per share loss this quarter – this year and last?

Jefferson Harralson

I was not on for that. That would be helpful.

Vernon Hill

Alright, so we neglected to include the per share loss, so the per share loss for the first quarter this year is ten pence a share versus 14 pence in the first quarter of last year, and that's a 31% improvement.

Jefferson Harralson

Okay, perfect, thank you. Is there anything new on the partnership front, or the – deposit partnerships, lending partnerships? Is there anything in the last 90 days that has added to that initiative?

Craig Donaldson

Yes, so we've been working with St James's Place, and on 25th April we'll be launching a new inter-generational mortgage, which is a product that's been put together by both St James's Place and ourselves. So, that will be offered to St James's Place customers. It's an innovative product, and I think it's fair to say both ourselves and St James's Place are very excited about it. And there'll be a lot more about that in the early part of next week.

Vernon Hill

And that's just one partner we have; we have lots of partners, including new partners, coming on.

Craig Donaldson

We have 17 partners overall that we're working with at the moment. We've got one partner that we'll be announcing in a few weeks' time as well. So it's going very well, but with St James's Place there is a want to build the relationship into product offerings for the long term as well.

Jefferson Harralson

Okay, and I'll ask one last one: what can you say about credit this quarter? What did it look like versus last quarter? What was the – was it worse, better?

Vernon Hill

The credit losses are so low. We're going give you the numbers, but they're so low they almost don't matter. I think the first quarter was better than the fourth quarter, wasn't it?

Michael Brierley

Yeah, I mean, on an annualised basis, the cost of risk is low double digits. We continue to see very low non-performing statistics, and we anticipate that continuing. Perhaps a little better than the fourth quarter, but absolutely on track.

Vernon Hill
And in conjunction with the practice here, in the next quarter we'll be releasing those numbers in more depth.

James McCormick
Thank you. Craig and Vernon, very nice quarter. Can you, Craig, give us a little bit more embellishment on the nature of the partnerships, many of them that you just quoted?

And also the – Vernon or Craig, how do you compare your growth with some of the other challenger institutions that we hear so much about over in the UK?

Vernon Hill
Well, first of all, Jim, you can't compare us with the other challengers, because there are no challengers. The ones that you know about are really loan production businesses funded with hot money and wholesale funding. There is nothing like Metro Bank in Britain, and there is really nothing to compare it to.

And then on your second question, I would ask you: is $114 million a year branch deposit growth good?

James McCormick
Yeah, so if you have an engineering background and think in terms of sigmas: it's not three sigma, it's not six sigma, it's probably around 15 sigma. The average branch in the United States in the last three or four years has been growing at $1 million per year; the best of them are a couple of multiples higher than that, but nowhere near your number.

Vernon Hill
And your question for Craig was?

Craig Donaldson
So St James Place, what we're doing with our partners there is we do mortgages, we do savings accounts where they introduce their customers to us, and we also do what we call our Money Management Account, where we would lend against the investments that are held on the platforms of St James's Place and our other partners. And it's grown exceptionally well; we were very pleased to see that partnerships as a whole has gone over £1 billion in deposits now, and growing very strongly. Good, deep relationships for the long term.

Vernon Hill
Jim, I think, you know, the results speak for themselves, but the surprise numbers, the growth per store, is so high in a normally weak quarter, I think that was the biggest surprise for me.

Craig Donaldson
I was going to say for me: I think the interesting thing for me is that the lending is so strong but the deposits, because of where they came in, almost have hidden the record performance on the lending, which I don't think we should lose either. I was very pleased with the lending and the continued growth we see there.

James McCormick
Last follow-up here from Jim McCormick: where are most of these accounts coming from? I know you've probably done that sort of analysis.

Vernon Hill
Well, let me put it this way. We know where every account's coming from, and we know by branch where every account is coming from. If this was America, I would probably tell you, but in British tradition, they're all coming from one of the big five banks and they tend to vary from store to store depending on their position. But I would say, most of them are equally helpful in contributing to our growth.

Craig Donaldson
That's true.

Richard Hocker
Good morning, guys. Congratulations, Vernon, on the continued great success there, proud of the whole team. I have two quick questions. One: help me to understand what you think are the potential implications if the UK withdraws from the EU.

And two: what, more importantly – if the central bank in the UK moves to a more negative interest rate profile, what do you anticipate the implications of that to the profitability of the Bank?

Vernon Hill
So, I'm going to let Craig answer one of these. I don't think this Brexit is going to have an impact us one way or the other. This is a market share take model, and there's such gigantic market share to take I don't think – we don't think we're going to be affected by any macro event like that. You have the other question?

Craig Donaldson
Yes, just to add on what Vernon said: I mean, we have customers that will benefit and others that think they won't benefit from it, so it's supporting both sides of the equation for us no matter what happens on Brexit.

On the negative interest rates, we manage our interest rate risk very tightly. If the rates were to go down, I think yes, it would have a small negative impact on us, but because of how we tightly we manage the interest rate risk, it would not be significant if there was a 25-basis-point reduction.

Vernon Hill
And we've assumed no improvement or downturn in the rate environment over the next several years in our plan, because every time we guess, we guess wrong.

Craig Donaldson
Rich, to be clear, it's interesting here how again, though, the forecasts are for rates up. There was a blip for around six to eight weeks where people were discussing rates down, and now it's forecasting again, if you look out into next year, we're talking about rates up again in 18 months' time, which has pretty much been the same story for the last seven years.

Michael Brierley
Yeah, the probability reflected in the markets, or the percentage likelihood of a negative interest rate or a rate reduction, has declined markedly over the last two months. There's still a percentage chance of it, but it's single-digit percentages.

Martin Leitgeb
Yes, good afternoon. Two questions from my side please. The first one is, I was wondering if you could comment on the trends you have seen with regards to net interest margin in the first quarter? And ideally, if you could split on what you're seeing on the asset side and what you're seeing on the liability side.

I think part of the question is equally my second question, is your very strong deposit growth during the year: how should we be thinking of deposit growth versus deposit pricing from here going forward? And I note from your homepage that you have lowered the deposit pricing, at least on the personal retail side, by about 30 basis points since January, so that's a substantial cut. Are you optimising at this stage for a deposit growth, or equally pricing is – or what is the focus at the moment? Are you focusing on volume growth or on optimising pricing on the retail side? Thank you.

Michael Brierley
Hi, it's Mike here. I'll let –

Vernon Hill

Hold on, hold on, let me say something to Martin about it. Martin, this is a business that grows on convenience and service. It is not interest-rate-driven. As you know, our cost of money is very low. Our model is to grow core deposits at a low cost based on service and convenience. Craig will give you some of the answers on your other thing, but our model is not rate driven.

Michael Brierley

I'll let Craig answer on the deposit pricing issue, but as far as the NIM is concerned, we're exactly on track for the NIM and in line with our budget. We've seen no material movements either in the yield on the asset side or indeed on the costs on the liability side. We're exactly where we thought we were going to be and pleased with that, and looking forward to an upward trend as our loan-to-deposit ratio increases.

Craig Donaldson

On our pricing, we obviously watch what goes on in the market, we try and price appropriately to make sure that our customers continue to get great value. It's very important that we price so that we keep loyalty. This is not trying to buy people in to then flip them and make more money off them. This is a long-term model where we want to bring people in on fair rates, we want to deliver fair rates and we want to deliver stunning service and convenience so we create fans. So it's the long-term nature of the model. Of course we look at our pricing, of course we consider it against the market and what we're bringing in, but what we absolutely balance that against is building loyalty and creating fans.

Martin Leitgeb

Very clear, thank you very much.

Vernon Hill

Thank you all for being on the call. We look forward to talking to you all at the end of the next quarter, if not before. Thank you all.

Craig Donaldson

Thank you.

Michael Brierley

Thank you.