**Metro Bank PLC**
**Full year results and Q4 Trading Update 2016**
22 February 2017

## METRO BANK REPORTS RECORD ANNUAL GROWTH IN DEPOSITS AND STRENGTHENING PROFITABILITY

Metro Bank PLC (LSE: MTRO) has delivered a strong trading performance for 2016.

### 2016 Full Year Highlights

- Asset growth up 64% year-on-year to £10,057m ($12,370)
- Record Deposit growth; up 56% year-on-year to £7,951m ($9,780m)
- Record Lending growth; up 66% year-on-year to £5,865m ($7,214m)
- Loan to deposit ratio increased to 74%
- Revenue up 62% year-on-year to £195m
- Record 260,000 increase in customer accounts to a total of 915,000
- Strong Common Equity Tier 1 capital ratio at 18.1%
- Underlying loss before tax[1] at £11.7m (compared to a loss of £46.6m in 2015)

### Q4 Highlights

- Deposits from customers up 9% quarter-on-quarter to £7,951m ($9,780m)
- Lending up 13% quarter-on-quarter to £5,865m ($7,214m)
- Revenue up 8% quarter-on-quarter to £57.6m
- Underlying profit before tax[2] at £1.5m (£0.6m in Q3 2016)

*Note: all figures contained in this announcement are unaudited. All figures in US$ have been translated at a rate of $1.23 to the £.*

| *Quarter ending £ in millions* | **31 Dec 2016** | **30 Sept 2016** | **Change In Quarter** | **31 Dec 2015** | **Change In Year** |
|---|---|---|---|---|---|
| **Assets** | **£10,057** | £9,005 | 12% | £6,148 | 64% |
| **Loans** | **£5,865** | £5,193 | 13% | £3,543 | 66% |
| **Deposits from customers** | **£7,951** | £7,297 | 9% | £5,108 | 56% |
| **Loan to deposit ratio** | **74%** | 71% | 3 bps | 69% | 5 bps |
| **Total Revenue** | **£57.6** | £53.4 | 8% | £34.3 | |
| **Underlying profit/(loss) before tax** | **£1.5** | £0.6 | 162% | (£12.5) | |
| **Underlying profit/(loss) after tax per share** | **£0.02p** | £0.00p | | (£0.17p) | |
| **Net interest margin** | **2.03%** | 1.95% | 8 bps | 2.01% | |

[1] Underlying profit/ (loss) before tax for the year excludes listing and related costs and impairment of plant & equipment and intangible assets. Statutory loss before tax at £17.2m (compared to a loss of £56.8m in 2015)

[2] Underlying profit/ (loss) before tax for the quarter excludes listing and related costs, the FSCS levy and impairment of plant & equipment and intangible assets. Statutory profit before tax at £0.9m (compared to a profit of £0.02m in Q3 2016)

**Craig Donaldson, Chief Executive Officer at Metro Bank said:**

"It's been another great quarter and I'm delighted with our full-year performance. We continue to show significant growth across lending, deposits and customer account numbers with continued integration of technology across all our channels, including stores, creating a compelling service experience for our retail and business customers."

"The year saw continued major investment in technology, stores and colleague training – c. £100m in total – helping us to achieve a 62% full year increase in revenue and our second successive quarter of profitability. Our absolute focus on creating FANS through our model, culture and fanatical execution goes from strength-to-strength."

**Vernon Hill, Chairman and Founder at Metro Bank said:**

"The response of the British public to Metro Bank has exceeded our expectations. Our goal is to create a legendary, emotional brand by creating FANS who join our brand, remain loyal and bring their friends. I'm very proud of the bank's success over the past 12 months, and my thanks go to our colleagues, investors and FANS who are Metro Bank. I am confident that this is just the beginning, the best is yet to come."

**Financial Highlights for the Year and Quarter Ended 31 December 2016**

- **As of 31 December total assets were £10,057m, up from £9,005m at 30 September 2016 and £6,148m at 31 December 2015; representing year-on-year growth of 64% and 12% growth in the quarter.**

- **Record net deposit growth per store per month of £5.7m ($7.0m) in 2016 compared to £5.3m ($6.5m) in 2015 showing the strength of the network effect.**

- **Comparative store deposit growth (a measure of deposit growth using deposit numbers from stores that have been operating for more than a full year) is 51%.**

- **The loan to deposit ratio increased to 74% (30 September 2016: 71%; 31 December 2015: 69%).**

- **Delivered two consecutive quarters of profitability: underlying profit before tax of £1.5m in Q4 2016 (compared to £0.6m in Q3 2016 and a £3.4m loss in Q2 2016).** Statutory profit after tax improved to £0.6m (compared to losses of £0.4m in Q3 2016 and £5.9m in Q2 2016).

- **For the year ended 31 December 2016, underlying loss before tax improved by 75% to £11.7m (2015: £46.6m).** Statutory loss before tax improved to £17.2m (compared to a loss of £56.8m in 2015).

- **Cost of deposits in Q4 was 66bps**, a reduction from 80bps in Q3. This reflects deposit re-pricing following the reduction in Base Rate in August and strong growth in current accounts.

- **As of 31 December total deposits were £7,951m, up from £7,297m at 30 September 2016 and £5,108m at 31 December 2015; representing year-on-year growth of 56%**

**and 9% in the quarter.** Deposits for the fourth quarter grew £654m. Deposits from commercial customers represent 50% of 31 December 2016 total deposits (30 September 2016: 52%).

| | 31 December 2016 £'m | 30 September 2016 £'m | 31 December 2015 £'m | % change in Quarter | % change in Year |
|---|---|---|---|---|---|
| Demand: non-interest bearing | **2,282** | **2,019** | **1,380** | **13%** | **65%** |
| Demand: interest bearing | **3,513** | **3,167** | **2,123** | **11%** | **65%** |
| Fixed term | **2,156** | **2,111** | **1,605** | **2%** | **34%** |
| **Deposits from customers** | **7,951** | **7,297** | **5,108** | **9%** | **56%** |
| *Deposits from customers includes:* | | | | | |
| Deposits from retail customers | **3,945** | **3,537** | **2,411** | | |
| Deposits from corporate customers | **4,006** | **3,760** | **2,697** | | |

- **Total loans as of 31 December were £5,865m, up from £5,193m at 30 September 2016 and £3,543m at 31 December 2015; an increase of 66% year-on-year, and a 13% increase in the quarter.** Loans to commercial customers represent 36% of total lending as of 31 December 2016 (30 September 2016: 35%).

| | 31 December 2016 £'m | 30 September 2016 £'m | 31 December 2015 £'m | % change in Quarter | % change in Year |
|---|---|---|---|---|---|
| **Gross Loans and advances to customers** | **5,872** | **5,202** | **3,549** | | |
| Less: allowance for impairment | **(7)** | **(9)** | **(7)** | | |
| **Net Loans and advances to customers** | **5,865** | **5,193** | **3,543** | **13%** | **66%** |
| *Gross loans and advances to customers includes:* | | | | | |
| Commercial loans | **2,087** | **1,824** | **1,273** | **14%** | **64%** |
| Residential mortgages | **3,604** | **3,202** | **2,157** | **13%** | **67%** |
| Consumer and other loans | **181** | **176** | **119** | **3%** | **52%** |

- **Asset quality remains strong.** Non-performing loans were 0.12% of the loan portfolio and the loan loss reserve as a percentage of non-performing loans was 103% at 31 December 2016. Cost of risk is 0.10% at 31 December 2016.

- **Capital ratios remain robust and well above regulatory requirements.** Common Equity Tier 1 Capital as a percentage of risk weighted assets is 18.1%. Regulatory Leverage ratio is 6.51%. A move towards the advanced risk based (AIRB) approach in the medium term as well as the potential for Tier 2 debt issuance present an opportunity to achieve greater capital efficiency.

## Operational Highlights

- **Customer acquisition goes from strength to strength.** Customer accounts have increased from 848,000 on 30 September 2016 to 915,000 at 31 December 2016. This represents an increase of 40% year-on-year and an 8% increase in the quarter.

- **We opened our 48th store** in Basingstoke in Dec 2016, one of 8 opened this year, as well as improving our existing network by building a Private Banking suite above the Kings Road store and expanding our contact centre in Slough.

- **Brand Recognition has increased to a record 84%** in the London market (compared to 80% in July 2016); rising to 89% for those working full-time and 87% for the ABC1 demographic, according to a recent independent survey conducted by YouGov[3].

- **Our continuous investment in technology and innovation** has resulted in the delivery of an improved customer experience across channels. We launched a game changing new online commercial banking platform, a new public website, introduced ApplePay as well as being the first UK challenger bank to join the Faster Payments scheme.

- **We've invested in our people**, welcoming 500 new colleagues this year, developing the talent within the bank and building strength and depth in the Commercial and Business teams in particular.

## Outlook

- We will strengthen our network with a further 10-12 new stores in 2017 as we continue to in-fill and expand our reach.

- We achieved quarter on quarter profitability in 2016 and expect to deliver a full year of profitability in 2017.

- We remain confident in our ability to achieve our 2020 guidance and have seen no significant change in customer behaviour since the European Referendum vote. Our disruptive model continues to go from strength to strength.

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[3] Brand awareness figures are from YouGov Plc. Total sample size was 1,021 adults. Fieldwork was undertaken between 14-17 February 2017. The survey was carried out online. The figures have been weighted and are representative of all London adults (aged 18+).

2020 guidance:

| | |
|---|---|
| **Number of stores** | **c.110** |
| **Average net growth in deposits per store per month** | **c.£5.25m** |
| **Loan to deposit ratio** | **c.80%** |
| **Net interest margin + fees** | **c.3%** |
| **Cost : Income ratio** | **c.60%** |
| **Cost of risk** | **c.0.20%** |
| **Leverage ratio** | **>4.0%** |
| **Return on equity** | **c.18%** |

## Metro Bank PLC

## Summary Balance Sheet and Profit & Loss Account
*(Unaudited)*

| **Balance Sheet** | **Annual Growth Rate** | **2016** 31-Dec | **2016** 30-Sep | **2015** 31-Dec |
|---|---|---|---|---|
| | | *£m* | *£m* | *£m* |
| **Assets** | | | | |
| Loans and advances to customers | 66% | 5,865 | 5,193 | 3,543 |
| Treasury assets [1] | | 3,727 | 3,400 | 2,282 |
| Other assets [2] | | 465 | 412 | 323 |
| **Total assets** | **64%** | **10,057** | **9,005** | **6,148** |
| | | | | |
| **Liabilities** | | | | |
| Deposits from customers | 56% | 7,951 | 7,297 | 5,108 |
| Deposits from banks | | 543 | - | - |
| Other liabilities | | 759 | 901 | 633 |
| **Total liabilities** | | **9,253** | **8,198** | **5,741** |
| **Total shareholder's equity** | **98%** | **804** | **807** | **407** |
| **Total equity and liabilities** | | **10,057** | **9,005** | **6,148** |

| **Summary Profit & Loss Account** | **Q4'15 to Q4'16 change** | **2016** Q4 | **2016** Q3 | **2015** Q4 |
|---|---|---|---|---|
| | | *£'000* | *£'000* | *£'000* |
| Net interest income | | 46,651 | 40,926 | 27,413 |
| Fee and other income | | 10,470 | 9,197 | 6,638 |
| Net gains on securities | | 525 | 3,265 | 254 |
| **Total revenue** | **68%** | **57,646** | **53,388** | **34,305** |
| | | | | |
| Operating expenses | **26%** | (54,585) | (52,078) | (43,423) |
| Credit impairment charges | | (1,577) | (743) | (3,393) |
| **Underlying profit/(loss) before tax** | **112%** | **1,484** | **567** | **(12,511)** |
| Underlying taxation | | (285) | (352) | 2,345 |
| **Underlying profit/(loss) after tax** | **112%** | **1,199** | **215** | **(10,166)** |
| | | | | |
| Listing and related costs | | (568) | (693) | (1,465) |
| FSCS levy | | - | 370 | - |
| Impairment of PPE and intangible assets | | - | (308) | (7,699) |
| Write down of deferred tax asset | | - | - | (2,651) |
| **Statutory loss after tax** | **103%** | **631** | **(416)** | **(21,981)** |

[1] Comprises investment securities, cash & balances with the Bank of England, and loans and advances to banks
[2] Comprises property, plant & equipment, intangible assets and other assets

| Summary Profit & Loss Account | Annual Growth Rate | 2016<br>12 months to 31 Dec | 2015<br>12 months to 31 Dec |
|---|---|---|---|
| | | *£'000* | *£'000* |
| Net interest income | | 154,240 | 88,873 |
| Fee and other income | | 35,475 | 24,950 |
| Net gains on securities | | 5,391 | 6,377 |
| **Total revenue** | **62%** | **195,106** | **120,200** |
| Operating expenses | **27%** | (202,146) | (159,757) |
| Credit impairment charges | | (4,706) | (7,030) |
| **Underlying loss before tax** | **75%** | **(11,746)** | **(46,587)** |
| Underlying taxation | | 438 | 9,206 |
| **Underlying loss after tax** | **70%** | **(11,308)** | **(37,381)** |
| Listing and related costs | | (5,137) | (1,465) |
| Impairment of plant & equipment and intangible assets | | (308) | (7,699) |
| Write down of deferred tax asset | | - | (2,652) |
| **Statutory loss after tax** | **66%** | **(16,753)** | **(49,197)** |

**Analyst and investor call**
An analyst and investor call will be held as follows:

Date: Wednesday 22 February 2017
Time: 2.00pm (GMT)
From the UK dial: 0808 237 0030 (Toll Free)
From the US dial: 1 866 928 7517 (Toll Free)
Participant Pin: 26453234#
URL for other international dial in numbers:
http://events.arkadin.com/ev/docs/NE_FEL_Events_International_Access_List.pdf

An operator will assist you in joining the call.

**For more information, please contact:**

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# Metro Bank PLC

# Preliminary Announcement

# For the year ended 31 December 2016

# Chief Executive Officer's Statement

## Introduction

This has been another amazing year for Metro Bank. We have expanded our network to 48 stores and created 500 jobs serving 915,000 customer accounts, with substantial growth across lending, deposits and customer accounts, as well as delivering two quarters of underlying profit and our first quarterly statutory profit. We continue to show strong deposit growth even as the cost of our deposits falls. This demonstrates that our offering of relevant, convenient high impact stores, UK-based contact centres and easy-to-use online and mobile services is persuasive for retail, business and private customers.

Our customer-focused model and culture and commitment to providing a superior banking experience remain at the forefront of our offering. We remain committed to long-term, sustainable growth and in 2016 invested over £100 million on stores, technology and on training our colleagues.

## Results overview

Metro Bank has had an excellent year, generating substantial growth in deposits and lending and achieving the month-on-month profitability we promised in the fourth quarter of 2016. Revenue is up 62% year-on-year and underlying loss before tax is down 75% to £11.7 million, compared to £46.6 million in 2015.

During 2016, we continued to be fully funded by customer deposits, with deposit growth per store of £5.7 million per month. As of 31 December 2016, total customer deposits were £7,951 million, up from £5,108 million at 31 December 2015.

Our strong growth during the year was achieved while maintaining a high-quality balance sheet. At the end of the year, our Common Equity Tier 1 capital ratio was 18.1%, strengthened by our £400 million capital raise, and our leverage ratio was 6.5%. During the year, we continued to manage our balance sheet carefully with a view to maintaining quality and efficiency.

Both the momentum and quality of our lending have been strong, with a 66% year-on-year increase in lending. Strong growth across both residential mortgages and commercial lending has resulted in our loan to deposit ratio further improving to 74%, as we have enabled more businesses to grow and more people to buy their houses.

Our business has not changed as a result of the UK public's decision to exit the European Union in June 2016. The Bank of England's subsequent decision to reduce the UK base rate has been passed on to lending customers and deposit holders. However, our savings promise holds true: we reward loyalty; we won't cut your rate while offering a better rate to new customers.

## Our model

A superior retail-focused customer service proposition emphasising simple, straight forward banking turns our customers into FANS. Our focus on making life easier for customers resulted in rapid growth in 2016. Our success speaks volumes of our dedication to providing uncomplicated services and products that people need.

We pride ourselves on our high street presence, with each of our stores firmly rooted in the local community that it serves. Each of our stores hosts a range of initiatives throughout the year to support residents and businesses, from SME networking events to free financial education programmes for schoolchildren.

Our highly motivated and engaged team of colleagues are committed to providing dedicated service to FANS. This customer-centric culture pervades our recruitment and training policies, and we are committed to hiring colleagues with the right attitude as a priority and then training for skill.

Building the bank from the ground up has given us strong advantages; we have connected with local communities and attracted customers and deposits by placing attractive, relevant stores in the right locations. We have created a bank with sound values, superior service levels and state-of-the-art IT infrastructure.

**Our FANS**

Through our Voice of the Customer programme we analyse customer feedback across all channels – store, telephone, social media, online and app – and use it to constantly improve our offering.

In 2016, our Net Promoter Score – the recognised marketing benchmark gauging customer loyalty – was 78%. That score remains in line with prior years, demonstrating that our customer focus continues as our network expands. Our brand recognition in February 2017 has risen to 84% across the London market. And all through word of mouth by our FANS: that's what we call marketing.

Over the year, we have bolstered our offering to commercial customers. Our sector-specialist teams now work with local authorities, social housing organisations, hotels and leisure companies, franchises, property companies, not-for-profit organisations and healthcare companies to name but a few, whilst our Local Directors and Regional Commercial teams support businesses in their local areas. Each team offers a wide range of commercial and mortgage lending products, and each has grown significantly in the last 12 months. Invoice and Asset financing has also continued to deepen the relationship and breadth of our service offering to our customers.

During 2016, our mortgage team continued to grow, and we launched an industry-leading retention proposition focused on customer convenience. This enables intermediary brokers and customers to renew Metro Bank mortgages in less than 30 minutes.

The Private Bank specialist teams continue to thrive and make a material contribution to our rapid growth. They provide a relationship-driven service through simple banking and lending services, and focus on Sports and Entertainment; Boards and Partners; and Entrepreneurs and Commercial Private Clients (for those with combined personal and commercial business interests).

Finally, partnerships, we've continued to partner with complementary wealth management firms and pension providers to provide products and services that our and their customers value, such as our intergenerational mortgage with St James' Place and also our Money Management Accounts. These partnerships are an important part of Metro Bank and our ability to create FANS.

**Integrated service delivery**

Through our integrated store, mobile, online and telephone banking services we provide an unparalleled level of tangible convenience for customers. By providing our customers with increasingly seamless access to their banking services across channels, we put control with the customer to use the channel of their choice at a time of their convenience, at any point in the customer journey. Our award-winning, legacy-free IT platform enables us to deliver a faster, more informed, and more secure service to customers without friction across multiple channels and systems.

Throughout 2016, we continued to invest in back office infrastructure; enhancing operational performance and resilience, including implementing more straight through processing and single customer view functionalities; leading cybersecurity controls, such as web application firewalls to protect our external websites, malware detection tools to protect data; and a 24/7 managed security service to monitor our IT infrastructure.

We have also made significant digital investment, with the launch of a new public website with a geo-user interface in August, our game-changing commercial banking platform, launched in November 2016, providing a single customer view dashboard to organisations with subsidiaries, helping businesses to quickly and easily view all companies they operate; and our new mobile app for Business and Personal customers, which provides a new platform onto which much more will be built during 2017. We also became the first UK retail bank to join the Faster Payments Scheme since the service was launched in 2008, and we have now rolled out Apple Pay and Android pay for our customers.

**Our 2016 awards**

We're proud to be Moneywise's Most Trusted Financial Provider 2016, where we were also awarded another four Moneywise Customer Service Awards for a range of our products and offerings. We were also announced as Bank of the Year at the 2016 City AM Awards and included as one of the London Stock Exchange's "1000 Companies to Inspire Britain" in 2016. On top of this, we won several technology awards as well as a number of individual awards for colleagues.

**Successful listing on the London Stock Exchange**

The revolution in British banking entered a new era on 10 March 2016 with the listing of Metro Bank (MTRO) shares on the Main Market of the London Stock Exchange. The successful floatation of Metro Bank followed a private capital raising that saw investors commit £400 million of new funding in support of the Company's growth plans. We will use the funds we have raised to power the next phase in Metro Bank's growth across our integrated service offering.

**Plans for the future**

Most excitingly of all, this is just the beginning. From a 2010 vision of a revolutionary new bank creating FANS to six years later, 2,500 colleagues serving 915,000 customer accounts and with the best yet to come as we grow towards our 2020 targets and beyond. To Metro Bank's FANS, to the colleagues who serve them and to all our supportive shareholders – thank you.

**Craig Donaldson**
Chief Executive Officer

## Principal Risks and Uncertainties

Metro Bank seeks to adopt best practice in corporate governance, risk management and control appropriate to the size and complexity of the business. Given the nature of the activities undertaken by Metro Bank, principal risks and uncertainties the Bank faces are:

- strategic risk - the risk that Metro Bank fails to achieve short and long term business objectives because of a failure to maintain its unique culture; maintain its differentiated model through delivering unparalleled levels of service and convenience
- credit risk - the risk of financial loss due to an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed
- market risk - the risk that changes in market prices, such as interest rates or prices of investment securities, will affect the Group's income or the value of its holdings of financial instruments
- liquidity risk - the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset
- conduct risk - the risk that our operating model, culture or actions result in unfair outcomes for customers
- compliance and regulatory risk - the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to adhere to applicable laws, regulations and supervisory guidance
- operational risk - the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events
- financial crime - the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime

The Board has ultimate responsibility for setting the Bank’s strategy, corporate objectives and risk appetite. The strategy and risk appetite take into consideration the interests of customers, shareholders and other stakeholders. The Board specifically approves the level of risk which the Bank is willing to accept, and ensures there is an adequate framework in place for reporting and managing those risks. It is responsible for maintaining an appropriate control environment to manage the principal risks, and for ensuring the capital and liquidity resources are adequate to achieve the Bank’s objectives within its risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of the Bank’s internal controls to the Audit Committee. The Audit Committee monitors and considers the internal control environment, focusing on operational risks, internal and external audits and credit assurance, and is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Risk Oversight Committee assists the Board in providing leadership, direction and oversight with regard to the Bank’s risk governance and management, and also assists the

Board in fostering a culture within the Bank that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management policies and controls are reviewed regularly to reflect changes in market conditions and the Bank's activities. Through training and management standards and procedures, the Bank aims to develop a robust and effective control environment in which all colleagues understand their roles and obligations.

Metro Bank's Chief Risk Officer ("CRO") is accountable for leading the risk function, which is independent from the Bank's operational and commercial functions. She is responsible for ensuring that appropriate risk management processes, policies and controls are in place, and that they are sufficiently robust, thereby ensuring that key risks are identified, assessed, monitored and mitigated. The CRO is also responsible for providing assurance to the Board and Directors that the principal risks are appropriately managed and that the Bank is operating within its risk appetite. The CRO has access and a dotted reporting line to the Chairman of the Risk Oversight Committee.

# Condensed consolidated statement of comprehensive income

## For the year ended 31 December 2016

| | Notes | Year ended 31 December 2016 £'000 | Year ended 31 December 2015 £'000 |
|---|---|---|---|
| Interest income | 2 | 213,486 | 125,199 |
| Interest expense | 3 | (59,246) | (36,326) |
| **Net Interest Income** | | **154,240** | **88,873** |
| Fee and commission income | | 22,189 | 15,713 |
| Net gains on sale of investment securities | | 5,391 | 6,377 |
| Other income | | 13,286 | 9,237 |
| | | **195,106** | **120,200** |
| Operating expenses | | (179,767) | (141,563) |
| Depreciation and amortisation | | (22,379) | (18,195) |
| Fees associated with listing | | (5,137) | (1,465) |
| Impairment of property, plant & equipment and intangible assets | | (315) | (8,744) |
| **Total operating expenses** | | **(207,598)** | **(169,967)** |
| Credit impairment charges | | (4,706) | (7,030) |
| **Loss before tax** | | **(17,198)** | **(56,797)** |
| Taxation | 4 | 445 | 7,600 |
| **Loss for the year** | | **(16,753)** | **(49,197)** |
| **Other comprehensive income for the year** | | | |
| Items which will be reclassified subsequently to profit or loss where specific conditions are met: | | | |
| Available for sale investments (net of tax): | | | |
| - fair value gains/(losses) | | 13,937 | (1,327) |
| - fair value gains transferred to the income statement on disposal | | (5,391) | (6,377) |
| Total other comprehensive income/(expense) | | **8,546** | **(7,704)** |
| **Total comprehensive loss for the year** | | **(8,207)** | **(56,901)** |
| **Loss per share – Basic and diluted (pence)** | 10 | **(22)** | **(83)** |

# Condensed consolidated balance sheet
## As at 31 December 2016

| | Notes | 31 December 2016 £'000 | 31 December 2015 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with the Bank of England | | 434,612 | 217,900 |
| Loans and advances to banks | 5 | 65,816 | 64,248 |
| Loans and advances to customers | 5 | 5,865,370 | 3,542,548 |
| Available for sale investment securities | 6 | 604,127 | 363,807 |
| Held to maturity investment securities | 6 | 2,622,588 | 1,635,985 |
| Property, plant and equipment | 7 | 246,690 | 165,257 |
| Intangible assets | 8 | 92,515 | 54,243 |
| Prepayments and accrued income | | 43,000 | 30,456 |
| Deferred tax asset | | 56,279 | 53,053 |
| Other assets | | 26,291 | 20,525 |
| **Total assets** | | **10,057,288** | **6,148,022** |
| **Liabilities** | | | |
| Deposits from customers | | 7,950,579 | 5,107,656 |
| Deposits from central banks | | 543,000 | - |
| Repurchase agreements | | 653,091 | 561,778 |
| Other liabilities | | 106,083 | 71,413 |
| **Total liabilities** | | **9,252,753** | **5,740,847** |
| **Equity** | | | |
| Called up share capital | 9 | - | - |
| Share premium account | 9 | 1,027,645 | 629,304 |
| Retained earnings | | (230,193) | (213,440) |
| Other reserves | | 7,083 | (8,689) |
| **Total equity** | | **804,535** | **407,175** |
| **Total equity and liabilities** | | **10,057,288** | **6,148,022** |

# Condensed consolidated cash flow statement
## For the year ended 31 December 2016

| | Notes | Year ended 31 December 2016 £'000 | Year ended 31 December 2015 £'000 |
|---|---|---|---|
| **Reconciliation of loss before tax to net cash flows from operating activities:** | | | |
| Loss before tax | | **(17,198)** | (56,797) |
| Adjustments for: | | | |
| Impairment and other write-offs of property, plant and equipment and intangible assets | 7,8 | **793** | 8,744 |
| Depreciation and amortisation of intangible and tangible assets | 7,8 | **22,379** | 18,195 |
| Share option charge | | **1,873** | 1,675 |
| Gain on sale of securities and fair value gains on derivatives | | **(5,376)** | (6,374) |
| Accrued interest on and amortisation of investment securities | | **(4,152)** | 8,510 |
| Changes in operating assets | | **(2,341,143)** | (1,970,639) |
| Changes in operating liabilities | | **3,511,726** | 2,542,722 |
| **Net cash inflows from operating activities** | | **1,168,902** | **546,036** |
| | | | |
| **Cash flows from investing activities** | | | |
| Sales of investment securities | | **2,196,953** | 910,546 |
| Purchase of investment securities | | **(3,403,039)** | (1,310,529) |
| Purchase of property, plant and equipment | 7 | **(97,828)** | (49,668) |
| Proceeds from sale of property, plant and equipment and intangible assets | 7,8 | **4** | - |
| Purchase of intangible assets | 8 | **(45,053)** | (29,907) |
| **Net cash outflows from investing activities** | | **(1,348,963)** | **(479,558)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Share issues | 9 | **403,572** | - |
| Cost of share issues | 9 | **(5,231)** | - |
| **Net cash inflows from financing activities** | | **398,341** | - |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **218,280** | 66,478 |
| Cash and cash equivalents at start of year | | **282,148** | 215,670 |
| **Cash and cash equivalents at end of year** | | **500,428** | **282,148** |
| | | | |
| Loss before tax includes: | | | |
| Interest received | | **207,678** | 121,316 |
| Interest paid | | **(53,246)** | (31,058) |
| | | | |
| Cash and cash equivalents comprise of: | | | |
| | | | |
| Cash and balances with the Bank of England | | 434,612 | 217,900 |
| Loans and advances to banks | | 65,816 | 64,248 |
| | | **500,428** | **282,148** |

# Condensed consolidated statement of changes in equity

## For the year ended 31 December 2016

| | Share capital £'000 | Share premium account £'000 | Retained earnings £'000 | Available for sale reserve £'000 | Share option reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | - | 629,304 | (213,440) | (12,018) | 3,329 | 407,175 |
| Net loss for the year | - | - | (16,753) | - | - | (16,753) |
| Other comprehensive income, net of tax, relating to available for sale investments | - | - | - | 8,546 | - | 8,546 |
| Total comprehensive income | - | - | (16,753) | 8,546 | - | (8,207) |
| Share issue | - | 398,341 | - | - | - | 398,341 |
| Share options at fair value | **-** | **-** | **-** | **-** | 7,226 | 7,226 |
| **Balance as at 31 December 2016** | **-** | **1,027,645** | **(230,193)** | **(3,472)** | **10,555** | **804,535** |
| **Balance as at 1 January 2015** | - | 629,304 | (164,243) | (4,314) | 1,654 | 462,401 |
| Net loss for the year | - | - | (49,197) | - | - | (49,197) |
| Other comprehensive income, net of tax, relating to available for sale investments | - | - | - | (7,704) | - | (7,704) |
| Total comprehensive income | - | - | (49,197) | (7,704) | - | (56,901) |
| Share issue | - | - | - | - | - | - |
| Share options at fair value | **-** | **-** | **-** | **-** | 1,675 | 1,675 |
| **Balance as at 31 December 2015** | **-** | **629,304** | **(213,440)** | **(12,018)** | **3,329** | **407,175** |
| **Notes** | **9** | **9** | | | | |

*The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.*

# Notes

## 1. Summarised accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2015 Annual Report. No new accounting policies have been adopted in the period under review, other than the adoption of mandatory accounting standards.

## 2. Interest income

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Investment securities | 46,528 | 28,119 |
| Loans and advances to customers | 166,958 | 97,080 |
| Total interest Income | **213,486** | **125,199** |

## 3. Interest expense

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Interest on customer accounts | 48,481 | 27,988 |
| Interest on repurchase agreements | 4,900 | 4,809 |
| Other | 5,865 | 3,529 |
| Total interest expense | **59,246** | **36,326** |

## 4. Taxation

### Tax credit / (charge) for the year

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Current tax: | | |
| UK corporation tax | (177) | - |
| Adjustment in respect of prior years | - | - |
| Total current tax | **(177)** | **-** |
| | | |
| Deferred tax: | | |
| Current year | (304) | 7,600 |
| Adjustment in respect of prior years | 926 | - |
| Total deferred taxation | **622** | **7,600** |
| | | |
| Total tax credit | **445** | **7,600** |

## 4. Taxation (continued)

### Factors affecting the tax credit / (charge) for the year

Total tax paid in relation to income during the year was £nil (December 2015: £nil). The tax credit on the group’s loss before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to the losses of the consolidated entities as follows:

| | **2016 £’000** | 2015 £’000 |
|---|---|---|
| Loss before tax | (17,198) | (56,797) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK (20%) | **3,440** | **11,359** |
| Tax effects of: | | |
| Expenses not deductible for tax purposes - listing fees | (368) | (296) |
| Expenses not deductible for tax purposes - other | (3,833) | (453) |
| Adjustment in respect of prior years | 926 | - |
| Change in tax rates on the net deferred tax asset | 280 | (3,010) |
| Total tax credit | **445** | **7,600** |

The Finance Bill 2016 was substantively enacted on 6 September 2015. The Act reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This supersedes the 18% rate effective in the Finance (No.2) Act 2015.

In the 2016 Budget the Chancellor announced from 1 April 2017 there will be a new restriction on the amount of profit that can be offset by brought forward losses. The use of brought forward losses against current year profits will be subject to an annual allowance of £5 million per group and above this allowance there will be a 50% restriction in the profits that can be covered by losses brought forward. This planned legislation has not yet been substantively enacted and therefore does not impact Metro Bank at the Balance Sheet date.

### Deferred Tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted. There is no time limit on the recovery of the deferred tax asset.

## 4. Taxation (continued)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | Unused tax losses | Available for sale securities | Share based payments | Property, plant & equipment | Intangible assets | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2016** | | | | | | |
| Deferred tax assets | 61,403 | 183 | 6,840 | - | 177 | **68,603** |
| Deferred tax liabilities | - | (1,906) | (645) | (4,478) | (5,295) | **(12,324)** |
| | | | | | | **-** |
| At 1 January 2016 | 56,163 | - | 1,499 | (1,861) | (2,748) | **53,053** |
| Income statement | 6,267 | - | (658) | (2,617) | (2,370) | **622** |
| Other comprehensive income | (1,027) | (1,723) | - | - | - | **(2,750)** |
| Equity | - | - | 5,354 | - | - | **5,354** |
| At 31 December 2016 | **61,403** | **(1,723)** | **6,195** | **(4,478)** | **(5,118)** | **56,279** |
| **2015** | | | | | | |
| Deferred tax assets | 56,163 | - | 1,499 | - | - | **57,662** |
| Deferred tax liabilities | - | - | - | (1,861) | (2,748) | **(4,609)** |
| At 1 January 2015 | 46,611 | - | 176 | (1,001) | (2,141) | **43,645** |
| Income statement | 7,747 | - | 1,323 | (860) | (607) | **7,603** |
| Other comprehensive income | 1,805 | - | - | - | - | **1,805** |
| At 31 December 2015 | **56,163** | **-** | **1,499** | **(1,861)** | **(2,748)** | **53,053** |

## 5. Loans and advances to customers and banks

*Total loans and advances to customers*

| | **31-Dec-2016** | 31-Dec-2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Gross Loans and advances to customers** | 5,872,864 | 3,549,331 |
| Less: allowance for impairment | (7,494) | (6,783) |
| **Net Loans and advances to customers** | **5,865,370** | **3,542,548** |
| | | |
| Amounts include: | | |
| Repayable on demand or at short notice | 49,215 | 38,385 |

*Loans and advances to customers by category*

| | **31-Dec-2016** | 31-Dec-2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Individual (retail customers):** | | |
| Overdraft | 66,088 | 49,701 |
| Credit Cards | 7,369 | 5,976 |
| Term Loans | 107,584 | 63,793 |
| Mortgages | 3,604,591 | 2,156,419 |
| **Corporate:** | | |
| Overdraft | 32,613 | 24,566 |
| Credit Cards | 1,681 | 887 |
| Term Loans | 1,874,104 | 1,111,239 |
| Asset and Invoice Finance | 164,295 | 122,644 |
| Senior Secured Lending | 14,539 | 14,106 |
| **Gross Loans and advances to customers** | **5,872,864** | **3,549,331** |

## 5. Loans and advances to customers and banks (continued)

### Loan asset credit quality

All loans and advances are categorised as either 'neither past due nor impaired', 'past due but not impaired', 'individually impaired', or 'collectively impaired'. For the purposes of the disclosures in the loan asset credit quality section below:

- A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.
- The impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment.
- Loans neither past due nor impaired and loans that are past due but not impaired consist predominantly of corporate and retail loans that are performing and whilst not individually impaired, may be subject to a collective impairment allowance.
- Impaired loans that are individually assessed consist predominantly of corporate loans that are past due and for which an individual allowance has been raised.
- Portfolio impaired loans, which are not included in the categories above, are a subset of collectively impaired loans and consist predominantly of retail loans that are 90 days or more past due.

*Credit quality of loans and advances to customers and banks*

| | **31 December 2016** | |
|---|---|---|
| | **Loans and advances to customers £'000** | **Loans and advance to banks £'000** |
| Neither past due nor impaired | 5,762,719 | 65,816 |
| Past due but not impaired | 88,811 | - |
| Individually impaired | 6,555 | - |
| Portfolio impaired | 14,779 | - |
| **Total** | **5,872,864** | **65,816** |
| Less: allowance for impairment | (7,494) | - |
| **Total** | **5,865,370** | **65,816** |
| Individually impaired | (1,825) | - |
| Collectively impaired | (5,669) | - |
| **Total** | **(7,494)** | **-** |

## 5. Loans and advances to customers and banks (continued)

| | 31 December 2015 | |
|---|---|---|
| | Loans and advances to customers £'000 | Loans and advances to banks £'000 |
| Neither past due nor impaired | 3,473,856 | 64,248 |
| Past due but not impaired | 60,033 | - |
| Individually impaired | 4,562 | - |
| Portfolio impaired | 10,880 | - |
| Total | **3,549,331** | **64,248** |
| | | |
| Less: allowance for impairment | (6,783) | - |
| Total | **3,542,548** | **64,248** |
| | | |
| Individually impaired | (3,282) | - |
| Collectively impaired | (3,501) | - |
| Total | **(6,783)** | **-** |

| | **31-Dec-2016 £'000** | 31-Dec-2015 £'000 |
|---|---|---|
| **Allowance for impairment at 1 January** | (6,783) | (5,439) |
| Write offs | 3,483 | 5,686 |
| Balance sheet reclassification of operational loss provision | 924 | - |
| Increase in impairment allowance | (5,118) | (7,030) |
| **Allowance for impairment at 31 December** | **(7,494)** | **(6,783)** |

### Past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

## 5. Loans and advances to customers and banks (continued)

**31 December 2016**

| | Mortgages £'000 | Corporate £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| **Past due less than 6 days** | 15,994 | 45,237 | 958 | **62,189** |
| **Past due 7-30 days** | 5,859 | 14,710 | 1,984 | **22,553** |
| **Past due 31-60 days** | 2,051 | 96 | 631 | **2,778** |
| **Past due 61-90 days** | 599 | 60 | 461 | **1,120** |
| **Over 90 days** | - | 171 | - | **171** |
| **Total** | **24,503** | **60,274** | **4,034** | **88,811** |

31 December 2015

| | Mortgages £'000 | Corporate £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| Past due 6 days | 8,151 | 18,520 | 264 | **26,935** |
| Past due 7-30 days | 15,977 | 12,014 | 1,498 | **29,489** |
| Past due 31-60 days | 1,223 | 425 | 427 | **2,075** |
| Past due 61-90 days | 745 | 189 | 265 | **1,199** |
| Over 90 days | - | 335 | - | **335** |
| Total | **26,096** | **31,483** | **2,454** | **60,033** |

### Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to customer by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

| **LTV ratio** | **31-Dec-16 £'000** | 31-Dec-15 £'000 |
|---|---|---|
| Less than 50% | 1,121,993 | 594,444 |
| 51-70% | 1,635,626 | 962,994 |
| 71-90% | 756,025 | 495,921 |
| 91-100% | 41,224 | 46,219 |
| More than 100% | 49,723 | 56,841 |
| Total | **3,604,591** | **2,156,419** |

### Loans and advances to corporate customers

The general credit worthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

## 5. Loans and advances to customers and banks (continued)

### Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector for commercial term exposure. The Bank risk appetite is set at the beginning of every year and monitored as part of the Board committee.

| **Industry Types - Commercial** | **Concentration 31 December 2016** | | Concentration 31 December 2015 | |
|---|---|---|---|---|
| | **£'000** | **(%)** | £'000 | (%) |
| Real estate (rent, buy and sell) | 1,064,194 | 57% | 627,904 | 57% |
| Legal, Accountancy & Consultancy | 276,164 | 15% | 133,848 | 12% |
| Health & Social Work | 177,931 | 10% | 95,722 | 9% |
| Hospitality | 95,600 | 5% | 40,007 | 4% |
| Real estate (management of) | 90,240 | 5% | 46,707 | 4% |
| Construction | 58,204 | 3% | 39,116 | 4% |
| Retail | 37,009 | 2% | 80,030 | 7% |
| Investment & Unit Trusts | 20,448 | 1% | - | - |
| Recreation, cultural & sport | 8,643 | - | 6,859 | 1% |
| Real estate (development) | 2,036 | - | - | - |
| Education | 1,484 | - | 3,289 | 0% |
| Other | 42,151 | 2% | 37,757 | 3% |
| | **1,874,104** | **100%** | **1,111,239** | **100%** |

Commercial exposures represent a growing part of the total lending portfolio. The average debt-to-value ("DTV") of the commercial loan book is stable and below 60%. The proportion of lending with DTV above 80% has been decreasing over the last 4 years and is now stable at 6%. Collections performances continue to improve. DTV is calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral.

| | **31-Dec-16** | 31-Dec-15 |
|---|---|---|
| | **£'000** | £'000 |
| **Total commercial lending** | **2,087,232** | 1,273,442 |
| **% of total lending** | **36%** | 36% |
| Average DTV | **57%** | 57% |
| DTV > 80% | **6%** | 6% |
| NPL (non-performing-loan) ratio* | **0.1%** | 0.1% |

* The non-performing-loan ratio is calculated as the ratio of the gross outstanding amount of loans with more than three instalments unpaid to the total gross outstanding amount.

## 6. Investment securities

| **Fair values of investment securities held at fair value** | **Level 1** | **Level 2** | **Total** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Recurring fair value measurements | | | |
| As at 31 December 2016 | | | |
| Financial investments: available for sale | **274,027** | **330,100** | **604,127** |
| As at 31 December 2015 | | | |
| Financial investments: available for sale | 189,309 | 174,498 | 363,807 |

## 6. Investment securities (continued)

The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The two levels of the fair value hierarchy are defined below.

*Quoted market prices – Level 1*

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

*Valuation technique using observable inputs – Level 2*

Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

### Reclassifications between categories

On 31 May 2016, £25.4 million of financial assets classified as available for sale were reclassified as held to maturity. On 22 November 2016, £14.9 million of financial assets classified as available for sale were reclassified as held to maturity. The carrying amount (including accrued interest) and fair value of the assets at 1 January 2016, 31 May 2016, 22 November 2016 and 31 December 2016 were as follows:

| | Carrying amount £'000 | Fair value £'000 |
|---|---|---|
| At 31 December 2016 | 40,329 | 40,872 |

A fair value gain of £0.06 million was recognised with respect to the reclassified assets in 2016; had these assets not been reclassified, a fair value gain of £0.55 million would have been recognised in other comprehensive income. The effective interest rates on available for sale assets reclassified to held to maturity at 1 January 2016 and 31 December 2016 ranged from 1.4% to 1.8%, with all cash flows expected to be recoverable.

At 31 December 2016, financial investments classified as held to maturity were as follows:

| | Carrying amount £'000 | Fair value £'000 |
|---|---|---|
| At 31 December 2016 | **2,622,588** | **2,651,136** |
| At 31 December 2015 | 1,635,985 | 1,629,527 |

## 7. Property, plant and equipment

| | Leasehold improvements £'000 | Freehold land and buildings £'000 | Fixtures, fittings and equipment £'000 | IT Hardware £'000 | Total £'000 |
|---|---|---|---|---|---|
| *Cost or valuation* | | | | | |
| 01-Jan-2016 | 156,238 | 8,273 | 17,400 | 27,439 | 209,350 |
| Additions | 46,444 | 44,672 | 3,417 | 3,295 | 97,828 |
| Disposals | - | - | - | (3) | (3) |
| Transfers | (31,626) | 31,626 | - | - | - |
| 31-Dec-2016 | **171,056** | **84,571** | **20,817** | **30,731** | **307,175** |
| *Accumulated depreciation* | | | | | |
| 01-Jan-2016 | 17,110 | - | 7,920 | 19,063 | 44,093 |
| Impairments | 35 | - | 161 | 44 | 240 |
| Charge for the year | 6,800 | 1,000 | 2,834 | 5,054 | 15,688 |
| Other write offs | 413 | - | 22 | 29 | 464 |
| Disposals | - | - | - | - | - |
| Transfers | (2,376) | 2,376 | - | - | - |
| 31-Dec-2016 | **21,982** | **3,376** | **10,937** | **24,190** | **60,485** |
| Net book value | **149,074** | **81,195** | **9,880** | **6,541** | **246,690** |

## 8. Intangibles

**Group**

| | Goodwill £'000 | Customer contracts £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|
| *Cost or valuation* | | | | |
| 01-Jan-2016 | 4,140 | 600 | 56,745 | 61,485 |
| Additions | - | - | 45,053 | 45,053 |
| Disposals | - | - | (1) | (1) |
| 31-Dec-2016 | **4,140** | **600** | **101,797** | **106,537** |
| *Amortisation* | | | | |
| 01-Jan-2016 | - | 145 | 7,097 | 7,242 |
| Impairments | - | - | 75 | 75 |
| Charge for the year | - | 60 | 6,631 | 6,691 |
| Other write offs | - | - | 14 | 14 |
| 31-Dec-2016 | **-** | **205** | **13,817** | **14,022** |
| Net book value | **4,140** | **395** | **87,980** | **92,515** |

**Group**

| | Goodwill £'000 | Customer contracts £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|
| *Cost or valuation* | | | | |
| 01-Jan-2015 | 4,140 | 600 | 35,319 | 40,059 |
| Additions | - | - | 29,907 | 29,907 |
| Impairment | - | - | (8,481) | (8,481) |
| 31-Dec-2015 | **4,140** | **600** | **56,745** | **61,485** |
| *Amortisation* | | | | |
| 01-Jan-2015 | - | 85 | 5,305 | 5,390 |
| Impairment | - | - | (1,430) | (1,430) |
| Charge for the year | - | 60 | 3,222 | 3,282 |
| 31-Dec-2015 | **-** | **145** | **7,097** | **7,242** |
| Net book value | **4,140** | **455** | **49,648** | **54,243** |

## 9. Share capital

As at 31 December 2016 the Group had 80.3 million A ordinary shares of 0.0001 pence (31 December 2015: 59.2m) in issue.

In March 2016, the bank issued 20.0 million A ordinary shares of 0.0001 pence each, for consideration of £400 million. Related transaction costs of £5.2 million have been deducted from equity during the period.

Additionally during the year, the Group issued 1,132,142 A ordinary shares; of which 900,818 relate to conversion of 1 million B ordinary shares, 152,130 relate to Executive share awards and 79,194 relate to the exercise of previously awarded share options. These transactions contributed £3.6m to share premium.

## 9. Share capital (continued)

| | **31-Dec-2016** | 31-Dec-2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Called up ordinary share capital, issued and fully paid** | | |
| At beginning of period | **-** | - |
| Issued | **-** | - |
| **At end of period** | **-** | **-** |

| | **31-Dec-2016** | 31-Dec-2015 |
|---|---|---|
| | **£'000** | £'000 |
| **Share premium account** | | |
| At beginning of period | 629,304 | 629,304 |
| Issued | 403,572 | - |
| Costs of share issued | (5,231) | - |
| **At end of period** | **1,027,645** | **629,304** |

## 10. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the period.

Diluted loss per share has been calculated based on the same loss attributable to ordinary equity holders of Metro Bank and weighted average number of ordinary shares in issue after the effect of adjustment for potential dilutive ordinary shares, which comprise share options granted to colleagues. Potential ordinary shares should only be treated as dilutive when their conversion to ordinary shares results in a reduction in earnings per share or an increase in loss per share. As Metro Bank has a loss attributable to ordinary equity holders of Metro Bank in 2016 and 2015 for these years, the share options would be antidilutive, as they would reduce the loss per share. Therefore, they are disregarded in the calculation of dilutive earnings per share. However, the share options could potentially be dilutive in the future.

| | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Loss attributable to ordinary equity holders of Metro Bank | (16,753) | (49,197) |
| Weighted average number of ordinary shares in issue (000's) | 76,791 | 59,208 |
| **Basic and diluted loss per share (pence)** | **(22)** | **(83)** |

## 11. Fair value of financial instruments

The fair values of financial instruments are based on market prices where available, or are estimated using other valuation techniques. Where they are short term in nature or re-price frequently, fair value approximates to carrying value. Apart from investment securities all other assets and liabilities are deemed to have a fair value hierarchy of level 3. Level 3 is defined as – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

## 11. Fair value of financial instruments (continued)

| 31-Dec-2016 | Carrying Value £'000 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant unobservable inputs Level 3 £'000 | Total Fair Value £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with the Bank of England | **434,612** | | | | **434,612** |
| Loans and advances to banks | **65,816** | | | **65,816** | **65,816** |
| Loans and advances to customers | **5,865,370** | | | **6,093,436** | **6,093,436** |
| Investment securities | **3,226,715** | **877,226** | **2,378,037** | | **3,255,263** |
| **Liabilities** | | | | | |
| Deposits from customers | **7,950,579** | | | **7,946,687** | **7,946,687** |
| Deposits from central banks | **543,000** | | | **543,000** | **543,000** |
| Repurchase agreements | **653,091** | | | | **653,091** |
| **31-Dec-2015** | | | | | |
| **Assets** | | | | | |
| Cash and balances with the Bank of England | 217,900 | | | | **217,900** |
| Loans and advances to banks | 64,248 | | | 64,248 | **64,248** |
| Loan and advances to customers | 3,542,548 | | | 3,614,877 | **3,614,877** |
| Investment securities | 1,999,792 | 657,681 | 1,335,653 | | **1,993,334** |
| **Liabilities** | | | | | |
| Deposits from customers | 5,107,656 | | | 5,095,942 | **5,095,942** |
| Repurchase agreements | 561,778 | | | | **561,778** |

For the cash and balances with the Bank of England and repurchase agreements, the carrying value approximates to the fair value, and therefore no pricing level has been identified for them above.

Information on how fair values are calculated for the financial assets and liabilities noted above are explained below:

(a) Cash and balances with the Bank of England / Loans and advances to banks
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. Fair values approximate carrying amounts as their balances are generally short dated.

## 11. Fair value of financial instruments (continued)

(b) Loans and advances to customers
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses and prepayments, if considered material.

(c) Investment securities
The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value level 1 assets), or using observable inputs (in the case of fair value level 2 assets).

(d) Deposits from customers
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

(e) Deposits from central banks / repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

## 12. Related party transactions

Architecture, design and branding services are provided to the bank by InterArch, Inc. ("InterArch") a firm which is owned by Shirley Hill, the wife of Vernon W. Hill II the Non-Executive Chairman. The cost of these services in the year was £3.2 million (2015: £2.3m). The balance owed to InterArch at 31 December 2016 was £0.4 million (31 December 2015: £0.2 million).

## 13. Post Balance Sheet Events

There have been no material post balance sheet events.

**ENDS**

**About Metro Bank**

**Retail banking:**

- 7 day a week store banking (8am-8pm Monday to Friday, 8am-6pm Saturday, 11am-5pm Sunday and bank holidays), 362 days of the year
- The ultimate in new account opening convenience, with a rapid opening procedure and on the spot bank cards and cheque books (Account Opening conditions apply. All Metro Bank products are subject to status and approval.)
- Free coin counting at every store, for customers and non-customers alike, with the Metro Bank Magic Money Machine™
- A friendly welcome to dogs and their owners, with water bowls and dog biscuits on hand for man's best friend - dogs rule at Metro Bank!

**Business banking:**

- The bank for entrepreneurs: Metro Bank offers tailored business banking services including a full range of lending and cash management solutions

**Private banking:**

- Private by name, personal by nature: Metro Bank Private Banking provides bespoke banking solutions for customers' personal and commercial interests

Metro Bank PLC. Registered in England and Wales. Company number: 6419578. Registered office: One Southampton Row, London, WC1B 5HA. 'Metrobank' is the registered trade mark of Metro Bank PLC.

We're authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Most relevant deposits are protected by the Financial Services Compensation Scheme. For further information about the Scheme refer to the FSCS website www.fscs.org.uk.

All Metro Bank products are subject to status and approval.

**Forward looking statements**

This announcement may include statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as "believes", "projects", "anticipates", "expects", "intends", "plans", "may", "will", "would", "could" or "should" or similar terminology. Any forward-looking statements in this announcement are based on the Company's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance.

No assurances can be given that the forward-looking statements in this announcement will be realised. The Company undertakes no obligation to release the results of any revisions to any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and the Company disclaims any such obligation.