Metro Bank PLC
Full year results and Q4
Trading Update 2017
21 February 2018

METRO BANK, THE REVOLUTION IN BRITISH BANKING, REPORTS RECORD RESULTS AND ANNOUNCES 2023 GUIDANCE

Metro Bank PLC (LSE: MTRO)

2017 Full Year Highlights

- Record Deposit growth of £3.7b; up 47% year-on-year to £11.7b.
- Net deposit growth per store per month of £6.3m ($8.6m); £76m ($103m) growth a year.
- Record Lending growth of £3.8b; up 64% year-on-year to £9.6b.
- Record underlying profit before tax of £20.8m[1] compared to underlying loss before tax of £11.7m in 2016.
- First annual statutory profit before tax of £18.7m.
- Underlying earnings per share 18.8p vs. 14.7p loss per share in 2016.
- Record Asset growth of £6.3b; up 63% year-on-year to £16.4b.
- Record 302,000 increase in customer accounts to a total of 1,217,000.
- Brand recognition in London has increased to a record 89% (from 84% in February 2017).

Year ending *£ in millions*	**31 Dec 2017**	**31 Dec 2016**	**Change in Year**
Assets	£16,355	£10,057	63%
Loans	£9,620	£5,865	64%
Deposits from customers	£11,669	£7,951	47%
Loan to deposit ratio	82%	74%	
Total Revenue	£293.8	£195.1	51%
Underlying profit/(loss) before tax[1]	£20.8	£(11.7)	
Underlying profit/(loss) after tax[1] **per share-basic**	18.8p	(14.7)p	
Statutory profit/(loss) after tax	£10.8	£(16.8)	
Customer net interest margin[2]	2.19%	2.13%	
Net interest margin	1.93%	1.97%	

Note: All figures contained in this trading update and preliminary announcement are unaudited. US$ have been translated at a rate of $1.35 to the £.

Craig Donaldson, Chief Executive Officer at Metro Bank said:

"2017 has been a fantastic year for Metro Bank. We've reported our first full year of profitability, had continued exceptional growth in both deposits (47%) and lending (64%), and have the privilege now of looking after over one million customer accounts. All of this at the same time as creating a further 600 jobs, taking our total workforce to over 3,000 and winning 'Most Trusted Financial Provider' for the second year running. Metro Bank, creating FANS through 'bricks and clicks', continues to be the compelling service offering for British consumers and businesses alike.

"For SMEs, the backbone of the British economy, Metro Bank is the real competition to the big incumbents. In our current heartland of London and the South East we are winning 17% of SME business current account switchers[3]. These businesses are attracted to our convenient stores which are open seven days a week, along with our online and award winning mobile banking services and our 24/7 contact centres, which are supported by our brilliant local business managers in every community we serve. As we enter new markets across the country, we will continue to create more jobs and bring real competition and choice for personal and business banking customers."

Vernon Hill, Chairman and Founder at Metro Bank said:

"FANS join us because of our superior customer service combined with a seamless banking experience, whatever the channel. At Metro Bank we are the fusion of digital and physical, combining face-to-face relationship banking with best in class technology creating record brand recognition of 89% in London. Our record lending, deposit and customer account growth proves that the Metro Bank model is the future of banking. 2018 will see us grow our FAN base across the UK, create a further 900 jobs and continue to provide real competition to the big high street banks."

Q4 Highlights

- Deposit growth of £0.9b; up 8% quarter-on-quarter to £11.7b.
- Record Lending growth in a quarter of over £1.0b; up 12% quarter-on-quarter to £9.6b.
- Revenue up 8% quarter-on-quarter to £84.6m.
- Underlying profit before tax[4] at £8.3m, a 15% increase from £7.2m in Q3 2017 and a sixth consecutive quarter of increasing profitability.

Quarter ending £ in millions	**31 Dec 2017**	**30 Sept 2017**	**Change in Quarter**
Assets	£16,355	£14,574	12%
Loans	£9,620	£8,608	12%
Deposits from customers	£11,669	£10,760	8%
Loan to deposit ratio	82%	80%	
Total Revenue	£84.6	£78.1	8%
Underlying profit before tax[4]	£8.3	£7.2	15%
Underlying profit after tax[4] per share-basic	7.5p	5.9p	26%
Statutory profit before tax	£7.6	£6.7	13%
Customer net interest margin[2]	2.21%	2.22%	
Net interest margin	1.87%	1.94%	

[1]Underlying profit before tax for the year excludes costs associated with listing and the Listing Share Awards, impairment of property, plant & equipment ("PPE") and intangible assets, and costs relating to the RBS alternative remedies package application. Underlying profit after tax for the year also excludes the effect of changes in the tax rate on the deferred tax asset.
[2]Customer Deposit NIM eliminates the distortions created by the Bank of England Term Funding Scheme drawings. As TFS unwinds (repayments are due four years from drawdown) the simple NIM calculation will move closer to the long term Customer Deposit NIM.
[3] Source: Charterhouse Research Business Banking Survey, YE Q4 2017. Based on interviews with businesses that had switched main bank in the 12 months prior to interview. Base size: 402. Data weighted by region and turnover to be representative of businesses in Great Britain.
[4]Underlying profit for the quarter also excludes the FSCS levy.

Outlook & Guidance

- **In 2018 we expect to open 12 stores**, expanding our network further west to Bristol and Cardiff and north to Birmingham and the Midlands, and creating 900 jobs. We continue our strategy of new stores in Greater London as well as bringing the revolution to new areas.

- **We are preparing our bid for the RBS alternative remedies package**, which presents a huge opportunity to deliver real choice for SMEs, and will use the funds to accelerate both our offering and reach across the UK.

- **Our disruptive model powers from strength to strength**. We delivered on our commitment to announce our first full year of profitability in 2017. As we approach 2020, we have refined our 2020 targets to reflect the progress we have made so far.

- **We remain a high growth retailer creating a powerful brand** and so looking ahead, we are also providing guidance out to 2023, the next staging post in our growth. These targets reflect our current strong growth and earnings momentum and increased brand awareness across the UK and are a natural extension of our 2020 targets.

	2017 Actual	**2020 Targets**	**2023 Targets**
Deposits	**£11.7b**	**c£27.5b**	**£50-55b**
Stores	**55**	**c100**	**140-160**
Deposit growth per store per month	**£6.3m**	**£5.5-6.5m**	**£5.5-6.5m**
Loan to Deposit ratio	**82%**	**85-90%**	**85-90%**
Customer NIM + Fees	**2.69%**	**c3%**	**c3%**
Cost:income ratio	**90%**	**c60%**	**55-58%**
Cost of Risk	**0.11%**	**c0.20%**	**0.15-0.30% across the credit cycle**
Leverage ratio	**5.5%**	**>4.0%**	**>4.0%**
ROE	**1.2%**	**c14%**	**17-19%**

- Following sustained outperformance we increase the deposits per store per month 2020 target to a range of £5.5m to £6.5m and adjust the store outlook from c.110 to c.100.

- To reflect the momentum of our lending and the market opportunities we see, we increase our loan to deposit ratio in 2020 from c.85% to a range of 85-90%.

- The Bank of England’s Term Funding Scheme has had a distorting effect on NIM + fees so we have introduced “Customer NIM + fees” which more accurately reflects underlying business performance.

Financial Highlights for the Year and Quarter Ended 31 December 2017

Summary

- **At 31 December total assets were £16.4b ($22.1b),** up from £14.6b at 30 September 2017 and £10.1b at 31 December 2016; representing year-on-year growth of 63% and 12% growth in the quarter.

- **Delivered a full year of profitability, following our sixth consecutive quarter of underlying profit.** Underlying profit before tax for the quarter to 31st December 2017 was a record £8.3m compared to £1.5m in Q4 2016.

- **Customer NIM (which eliminates the distortions caused by the Bank's drawings from the Bank of England Term Funding Scheme) of 2.19% for 2017**, up from 2.13% for full year 2016 reflecting the increased loan to deposit ratio. Net interest margin for the year has decreased to 1.93% compared to 1.97% in 2016 following cash drawn down under the Term Funding Scheme. These drawings are beneficial to increase net income but, in the short to medium term, serve to decrease net interest margin.

Deposits

- **At 31 December total deposits were £11.7b ($15.8m), up from £10.8b at 30 September 2017 and £8.0b at December 2016.** This represents year-on-year of growth of 47%. Within the quarter deposits increased £909m, representing 8% growth.

- **Average net deposit growth per store per month was £5.9m ($8.0m) in Q4 2017 and £6.3m ($8.6m) for 2017.** Net deposit growth per store per month remains well in excess of our previous 2020 guidance.

- **Average net deposit growth per store in 2017 was £76m ($103m).**

- **Comparative store deposit growth** (a "like for like" measure of deposit growth using deposit numbers from stores that have been operating more than a full year) is 43% (24 months: 39%; 36 months: 35%).

- **Non-interest bearing current accounts were £3.7b, up 61% in the year.** They represent 32% of total deposits (30 September 2017: 30%) and will provide a funding advantage in a rising rate environment.

£ in millions	**31 December 2017 £'m**	**30 September 2017 £'m**	**31 December 2016 £'m**	**% Change in Quarter**	**% Change in Year**
Demand: non-interest bearing	£3,682	£3,274	£2,282	12%	61%
Demand: interest bearing	£5,303	£5,113	£3,513	4%	51%
Fixed term	£2,684	£2,373	£2,156	13%	24%
Deposits from customers	£11,669	£10,760	£7,951	8%	47%
Deposits from customers includes:					
Deposits from retail customers	£5,476	£5,108	£3,945	7%	39%

Deposits from corporate customers	£6,193	£5,652	£4,006	10%	55%

- **Cost of deposits in Q4 was 52bp, up from 50bp in Q3 2017.** This reflects an increase in the Bank of England base rate in November 2017. For the full year, cost of deposits is 54bp, down from 79bp in 2016 due to continued strong growth in non-interest bearing liabilities (current accounts) and repricing decisions taken during the year.

Lending

- **Record Lending growth in a quarter of over £1.0b; up 12% quarter-on-quarter to £9.6b.**

- **Total loans as of 31 December 2017 were £9.6b, up from £8.6b at 30 September 2017 and £5.9b at 31 December 2016.** Loans to commercial customers represent 33% of total lending as of 31 December 2017 (30 September 2017: 34%).

- **The loan to deposit ratio increased to a record 82%** (30 September 2017: 80%; 31 December 2016: 74%) following record lending both to commercial and residential mortgage customers.

- **Asset quality remains strong.** Non-performing loans were 0.27% of the portfolio. Year-to-date cost of risk remained stable at 0.11%.

	31 December 2017 £'m	30 September 2017 £'m	31 December 2016 £'m	% Change in Quarter	% Change in Year
Gross loans and advances to customers	£9,635	£8,620	£5,872	12%	64%
Less: allowance for impairment	£(15)	£(12)	£(7)	25%	114%
Net loans and advances to customers	£9,620	£8,608	£5,865	12%	64%
Gross loans and advances to customers includes:					
Commercial loans	£3,187	£2,909	£2,087	10%	53%
Residential mortgages	£6,231	£5,503	£3,604	13%	73%
Consumer and other loans	£217	£208	£181	4%	20%

Profit and Loss Account

- **£32.5m uplift in Underlying Profit before Tax year on year; £20.8m profit in 2017 compared to a £11.7m loss in 2016.**

- **Strong and positive income (+51%) and cost (+31%) growth differential.**

- **Annual operating costs per £1M of deposits of £23k in 2017, down from £25k in 2016, an improvement of 11%.**

- **49 of our 55 stores are making a positive contribution to the Bank's overall profitability.**

Capital

- **Capital ratios remain robust and well above regulatory requirements.** Common Equity Tier 1 Risk Capital ("CET1") as a percentage of risk weighted assets is 15.3%. Risk weighted assets at 31 December 2017 were £5.9b. Regulatory Leverage ratio is 5.5%.

- **The Bank's AIRB application relating to retail residential mortgages has been submitted.**

Customer Experience

- **Record customer acquisition.** Customer accounts have increased from 1,124,000 at 30 September 2017 to 1,217,000 at 31 December 2017; a record quarterly net increase of 93,000.

- **Brand recognition in London has increased to a record 89%** (compared to 84% in February 2017); rising to 92% for those working full-time and 89% for the ABC1 demographic. Across the UK, brand recognition has reached 48% (up from 43% in July 2017) according to a recent independent survey conducted by YouGov.[1]

- **Launched award winning Mobile App.**

- **We've invested in our people,** creating 600 new roles this year within the bank, and continued to invest for the long term in technology and stores.

- **We opened our 55th store in Swindon on 29 December.** We opened seven new stores in the year, growing our store network to 55 and bringing the revolution further north to Peterborough, west to Swindon and east to Canterbury.

[1] All figures, unless otherwise stated, are from YouGov Plc and are taken from four surveys:

- Total sample size was 1004 adults. Fieldwork was undertaken between 8-12 February 2018. The figures have been weighted and are representative of all London adults (aged 18+).
- Total sample size was 1021 adults. Fieldwork was undertaken between 14-17 February 2017. The figures have been weighted and are representative of all London adults (aged 18+).
- Total sample size was 2191 adults. Fieldwork was undertaken between 6 -7 February 2018. The figures have been weighted and are representative of all GB adults (aged 18+).
- Total sample size was 2079 adults. Fieldwork was undertaken between 30 June - 3 July 2017. The figures have been weighted and are representatve of all GB adults (aged 18+).

Metro Bank PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	Annual Growth Rate	2017 31-Dec	2017 30-Sep	2016 31-Dec
		£m	*£m*	*£m*
Assets				
Loans and advances to customers	64%	9,620	8,608	5,865
Treasury assets [1]		6,127	5,393	3,727
Other assets [2]		608	573	465
Total assets	**63%**	**16,355**	**14,574**	**10,057**
Liabilities				
Deposits from customers	47%	11,669	10,760	7,951
Deposits from banks		3,321	2,123	543
Other liabilities		269	598	759
Total liabilities	**65%**	**15,259**	**13,481**	**9,253**
Total shareholder's equity		**1,096**	**1,093**	**804**
Total equity and liabilities		**16,355**	**14,574**	**10,057**

Summary Profit & Loss Account	Q4'16 to Q4'17 change	2017 Q4	2017 Q3	2016 Q4
		£'000	*£'000*	*£'000*
Net interest income		69,296	64,244	46,651
Fee and other income		13,831	12,915	10,470
Net gains on securities		1,435	925	525
Total revenue	**47%**	**84,562**	**78,084**	**57,646**
Operating expenses	**34%**	(73,070)	(69,605)	(54,585)
Credit impairment charges		(3,236)	(1,328)	(1,577)
Underlying profit before tax	**456%**	**8,256**	**7,151**	**1,484**
Underlying taxation		(1,622)	(1,900)	(285)
Underlying profit after tax	**453%**	**6,634**	**5,251**	**1,199**
Listing Share Awards		(316)	(316)	(568)
FSCS levy (net of tax)		-	176	-
Impairment of PPE and intangible assets		(249)	(390)	-
Costs relating to RBS alternative remedies package application		(129)	-	-
Effect of changes in tax rate on deferred tax asset		(2,974)	-	-
Statutory profit after tax	**370%**	**2,966**	**4,721**	**631**

[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**	**2017 12 months to 31 Dec**	**2016 12 months to 31 Dec**
		£'000	*£'000*
Net interest income	56%	240,982	154,240
Fee and other income		49,078	35,475
Net gains on securities		3,692	5,391
Total revenue	**51%**	**293,752**	**195,106**
Operating expenses	**31%**	(264,710)	(202,146)
Credit impairment charges		(8,223)	(4,706)
Underlying profit/(loss) before tax		**20,819**	**(11,746)**
Underlying taxation		(4,912)	438
Underlying profit/(loss) after tax		**15,907**	**(11,308)**
Costs associated with listing		-	(1,841)
Listing Share Awards		(1,376)	(3,296)
Impairment of PPE and intangible assets		(639)	(308)
Costs relating to RBS alternative remedies package application		(129)	-
Effect of changes in tax rate on deferred tax asset		(2,974)	-
Statutory profit/(loss) after tax		**10,789**	**(16,753)**

Analyst and investor webcast
An analyst and investor webcast will be held as follows:

Date: Wednesday 21 February 2018 Time: 14:00 (GMT)/09:00 (EST) To register for the webcast, please click on the following link: http://event.onlineseminarsolutions.com/wcc/r/1517420-1/7A67A883524DA0207FF62C24F75BC42A?partnerref=rss-events From the UK dial: 08003589473 (Toll Free) From the US dial: +1 855 85 70686 (Toll Free) Participant Pin: 97807198# URL for other international dial in numbers: http://events.arkadin.com/ev/docs/NE_W2_TF_Events_International_Access_List.pdf An operator will assist you in joining the call.

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Metro Bank PLC

Preliminary Announcement

(Unaudited)

For the year ended 31 December 2017

Chief Executive Officer's Statement

A YEAR OF GROWTH AND FANATICAL EXECUTION

We have had a great year:

- Growing to over 1.2 million customer accounts
- Growing to over £11.6 billion of deposits
- Lending over £9.6 billion to personal and business customers, with over £1 billion in the fourth quarter alone
- Creating nearly 600 jobs taking the total number of colleagues to over 3,000
- Expanding our award winning store network to 55 stores
- Launching our award winning new mobile offering
- Being voted Most Trusted Financial Provider[1] for the second year running
- Achieving our first full year of profit

Our strategy remains the same: to be a high-growth retailer with a differentiated business model that integrates our innovative digital offering with fanatical physical delivery, delivered by colleagues who embody our AMAZEING culture.

And it's working. By surprising and delighting our customers and creating FANS, we earned a Net Promoter Score of over 80% in 2017. Our FANS are telling their friends and family about us, spreading the revolution through word of mouth, with our brand recognition rising to 89% London.

This means we are winning our personal and business customers through recommendation and as we surprise and delight them we create even more FANS who stay with us longer and recommend more of their friends, family and colleagues to join us– thank you.

Powering from strength to strength
Metro Bank has had a fantastic year, growing across every area of the business. Our geographical expansion, integrated with cutting-edge technology, is reinforcing our network and attracting retail and commercial customers. We've generated both record deposit and record lending growth, closing the year with our highest ever loan to deposit ratio of 82%. This has in turn increased revenue by 51% year-on-year and led to a £32.5 million uplift in profitability to £20.8 million from a £11.7 million loss in 2016.

Record deposit growth
More FANS are trusting us with more of their money. Deposits surpassed £10 billion for the first time, increasing by £3.7 billion over the year to £11,669 million. Over 300,000 customer accounts were opened during the year and the average balance increased by 10% to £9,588.

	2017	2016	Change
Deposits	£11.7bn	£8.0bn	47%
Commercial	53%	50%	
Retail	47%	50%	
Average deposits per customer	£9,588	£8,689	10%
Net average deposits per store per month	£6.3m	£5.7m	11%
% current accounts	32%	29%	n/a
Cost of deposits	0.54%	0.79%	(25)bps

Deposit growth has been fastest among business customers, particularly small and medium-sized enterprises which we believe are the most under served in the market. These commercial deposits grew 55% to represent 53% of our deposit base, bringing with it the associated transaction fees. In our current heartland of London and the South East we are winning 17% of SME business current account switchers and will continue to strengthen our presence in the sector, as well as entering new markets where we will bring further competition and choice.

Our iconic stores generated deposit growth of £6.3 million per store per month over the year, up from £5.7 million in 2016. Every store across our network has grown its deposit base year-on-year, and we now have three stores which have generated more than £400 million of deposits. Comparative store deposit growth remains strong at 43% for stores open over 12 months; 39% for stores open over 24 months; and 35% for stores open over 36 months.

This was achieved while reducing our cost of deposits from 0.79% to 0.54%, the lowest ever level, bearing testament to our belief that customers will trade lower rates for a better service experience. We've seen 61% year-on-year growth in sticky current accounts, the engine of our organisation, which now total 32% of our deposit base and provide a clear funding advantage in a rising rate environment.

Record lending growth
Both the momentum and quality of our lending have been strong. Building a bank for the long term requires fanatical focus on the right type of lending, without trading volume for quality. We achieved a 64% increase in lending year-on-year to £9,620 million across retail and commercial, while maintaining a low and stable 0.11% cost of risk and average debt to value ratios of c.60%.

I'm particularly proud of the way that we've continued to support the small and medium sized enterprises ('SME') sector. At the start of the year, we committed to providing £1 billion of net new lending to businesses during 2017 – a promise we not only delivered on but renewed for 2018.

Long term capital planning
From a capital perspective our growth was supported by an equity raise of £278 million in July 2017. Shareholders responded overwhelmingly, with shares issued at the market price on the date of issue. We have submitted our application to the PRA to be eligible to apply advanced internal rating-based ('AIRB') capital requirements to our residential mortgage portfolio. A successful application will ensure appropriate capital efficiency to support our future lending.

Fanatical execution and a unique culture
At Metro Bank, the culture is owned by everybody and is what sets us apart from the rest. We're fanatical about creating the right culture for long-term success. A truly differentiated approach to banking starts with hiring for attitude and training for skill, investing in training and development where core values are reinforced, and rewarding colleagues based on their AMAZEING behaviours. By creating FANS of our colleagues, they make FANS of our customers –and this is what the banking revolution is all about.

We commit to the career of each of our colleagues – and during the year provided them with nearly 900 training courses through our in-house training facility, Metro Bank University. We're the only bank that offers all our store and contact centre advisers the chance to gain a professional qualification with the Chartered Banker Institute. We also operate an apprenticeship programme to support young people to start a career in banking. We also give all our apprentices a permanent job with us.

Protecting our culture as we grow is key. We like to promote from within, which means that we always look for internal candidates before searching externally. Each new store creates c.25 new jobs within the local community – and during 2017 we promoted over 600 colleagues. It's inspiring to see the 29 colleagues who began their journey at Metro
Bank as cashiers or customer service representatives who have now been promoted to store manager or more senior positions.

Each of our colleagues is dedicated to supporting the communities that we serve. Our stores act as real hubs for the local community, with hundreds of networking and charity events hosted in them throughout the year, as well as our free financial education programme, MoneyZone, which taught money basics to more than 27,000 students in 2017.

Seamlessly integrating bricks and clicks
Customers tell us time after time that they want the option to choose how, when and where they engage with our services – whether in store, via the app, over the phone or online. Our cultural, customer-led approach applies across all channels.

This year, we continued to expand our network both inside and outside London. We are currently building our 56th store in Watford, and expect to expand our network by a total of 12 stores in 2018. We're excited to open new markets in Cardiff, Bristol, Birmingham and beyond in the coming months.

Award-winning, legacy-free IT platforms enable us to deliver a faster, more informed and more secure service to customers without friction across multiple channels and systems. Real-time data processing enables fulfilment at the point of sale for today's 'now' culture, and we continue to invest in our digital capability so we can adapt to changing consumer behaviours and preferences. Whether that's simple tweaks that make life that bit easier for our customers, like using contactless technology with our Magic Money Machines, or developing state-of-the-art Current Account Online opening using 'selfie' technology for identification and verification and allowing customers to choose to collect their card in store or be sent in the post.

Behind the scenes we're constantly looking to improve the safety and security of our customers. Aided by our top-of-the-range systems and ability to see a single view of all a customer's banking products, we're continually improving our fraud analytics, thereby helping to target fraudsters before they're able to act. Our bespoke telephony systems incorporate a range of market-leading fraud detection platforms. We take looking after customers' data just as seriously as looking after their deposits.

In further developments, we've successfully developed a bank-wide application programme interface ('API') layer to support client data requests and get ready for the opportunities the open banking revolution presents.

Our 2017 awards
There's so much to be proud of at Metro Bank: the entrepreneurs we support to grow their businesses; the families we help to buy their homes; the jobs we create and the contribution we make to local communities. We've also been privileged to again receive a wide range of awards during the year, recognising our commitment to providing outstanding service in every channel. These awards underline the fact that great service is about meeting the needs of our customers, however they want to do business with us – on the go, in our stores or over the phone – and by providing products that can be trusted.

For the second year in a row, we were voted the Moneywise 'Most Trusted Financial Provider', a real validation of how we are viewed by the British public. We also won the Moneywise award for 'Best Mobile Banking app', demonstrating just how well we're able to integrate all facets of our business. We were named a Glassdoor Top 50 employer in the UK and, to top it off, we won 'Financial Services Company of the Year' at the London Evening Standard Business Awards 2017.

Looking to 2020 and beyond

We delivered on our commitment to announce our first full year of profitability in 2017. As we approach 2020, we have refined our 2020 targets to reflect the progress we have made so far:

- Following sustained outperformance, we increase deposits per store per month from c.£5.25 million to £5.5-6.5 million. We adjust the store outlook from c.110 to c.100 as we anticipate reaching the same total deposit with slightly fewer stores in 2020
- To reflect the momentum of the lending and market opportunities we see, we increase our loan to deposit ratio from c.85% to 85-90%
- We are adjusting the 2020 NIM + fees guidance of c.3% to be customer deposit NIM + fees. When we announced the targets in early 2016, TFS did not exist and has had a distortive effect on NIM, so we believe this metric more accurately reflects the underlying business performance

Our 2020 targets are:

Target	2020
Stores	c.100
Deposit growth per store per month	£5.5-6.5m
Loan to deposit ratio	85-90%
Customer NIM + fees	c.3%
Underlying cost to income ratio	c.60%
Cost of Risk	c.0.20%
Leverage ratio	>4.0%
ROE	c.14%

As we approach 2020, I wanted to share the longer-term vision, so we are also introducing guidance on the next staging post in our growth.

Target	2023
Deposits	50-55bn
Stores	140-160
Deposit growth per store per month	£5.5- 6.5m
Loan to deposit ratio	85-90%
Customer NIM + fees	c.3%
Underlying cost to income ratio	55-58%
Cost of Risk	0.15-0.30%
Leverage ratio	>4.0%
ROE	17-19%

Changes to the Board
This year we welcomed Monique Melis to our Board as an independent Non-Executive Director. Monique brings a wealth of financial services and regulatory experience across established and growth markets.

We were also sad to announce the retirement of our Chief Financial Officer, Mike Brierley. I am really sorry to lose Mike from the Metro Bank family. He has been on the journey with us from the very start, and without his knowledge, hard work and business acumen, it would have been even harder and definitely a lot less fun building Metro Bank.

Mike retires at the end of March 2018 and will be replaced by David Arden who joins us from Sainsbury's Bank. The appointment of David marks a new chapter in the Metro Bank story. David's distinctive blend of retailing and banking experience made him the natural choice to be our CFO and I look forward to him joining the team and helping us take the Bank nationwide.

In summary
It gives me immense pride to report our first annual profit, as we continue to grow towards our 2020 vision and to deliver value for all our FANS.

On behalf of the Board, I'd like to extend my sincere thanks to our shareholders and our tremendous colleagues – as well as to the British businesses and public who have so overwhelmingly embraced the revolution in banking.

Craig Donaldson
Chief Executive Officer

[1]Moneywise Customer Service Awards 2016 and 2017, Most Trusted Financial Provider – Metro Bank.
[2]All figures, unless otherwise stated, are from YouGov Plc. and are taken from four surveys: Total sample size was 1004 adults. Fieldwork was undertaken between 8-12 February 2018. The figures have been weighted and are representative of all London adults (aged 18+). Total sample size was 1021 adults. Fieldwork was undertaken between 14-17 February 2017. The figures have been weighted and are representative of all London adults (aged 18+).Total sample size was 2191 adults. Fieldwork was undertaken between 6 -7 February 2018. The figures have been weighted and are representative of all GB adults (aged 18+). Total sample size was 2079 adults. Fieldwork was undertaken between 30 June - 3 July 2017. The figures have been weighted and are representative of all GB adults (aged 18+).

[3]Source: Charterhouse Research Business Banking Survey, YE Q4 2017. Based on interviews with businesses that had switched main bank in the 12 months prior to interview. Base size: 402. Data weighted by region and turnover to be representative of businesses in Great Britain.

Risk Factors and Management

We adopt best practice in corporate governance, risk management and control appropriate to the size and complexity of our business. All our colleagues are responsible for managing risk as part of their day-today role. Customer-facing colleagues are at the forefront of risk management, along with their line managers. The Risk function, including the underwriting, credit risk and analytics, treasury risk, and enterprise risk teams, oversees the risk management activities. The function also supports other colleagues in their risk management work, for example by providing centralised 'bump-up' support contacts for more complex requirements, freeing up customer-facing colleagues to focus on creating FANS.

Given the nature of our activities, the principal risks and uncertainties we face are:

- Strategic risk - the risk that we do not achieve short and long-term business objectives
- Credit risk - the risk of financial loss due to a customer's failure to meet the terms of any contract or otherwise fail to perform as agreed
- Market risk, including interest rate risk - the risk that changes in market prices, such as interest rates or prices of investment securities, will affect our income or the value of our holdings of financial instruments
- Liquidity risk - the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities that are settled by delivering cash or another financial asset, or will incur a disproportionate cost in meeting these obligations
- 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 sanctions
- Operational risk - the risk of direct or indirect impact from failed or inadequate processes, people or systems, or exposure to external events
- Financial crime - the risk of financial loss or reputational damage

The Board has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite. The strategy and risk appetite consider the interests of customers, shareholders and other stakeholders. Taking into consideration the advice of the Risk Oversight Committee, the Board specifically approves the level of risk acceptable under each category of risk, and ensures there is an adequate framework in place for reporting and managing those risks. It is also responsible for maintaining an appropriate control environment to manage the principal risks and for ensuring the capital, liquidity, and other resources are adequate to achieve our objectives within our risk appetite.

The Risk function provides specialist knowledge and support to colleagues throughout the Bank and acts as a reference point for queries, while also overseeing colleagues and the risks and controls in place. The function operates themed, targeted and ad-hoc reviews to provide assurance to the leadership team – and ultimately to the Board – that risks are properly managed, controls are effective, and that we're not exceeding our risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of the Bank's internal controls to the Audit Committee. This 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 our Internal Audit function. Internal Audit carries out both regular and ad-hoc reviews of risk management controls and procedures, and reports the results to the Audit Committee. The Director of Internal Audit's reporting line is to the Chairman of the Audit Committee – with a dotted line to the CEO – and therefore supports the function's independence.

The Risk Oversight Committee helps the Board provide leadership, direction and oversight of our risk governance and management. It also helps the Board foster a culture that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control when creating FANS.

We've established our risk management policies 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 team regularly reviews these policies and controls to verify compliance and to reflect changes in market conditions and the Bank's activities. We use training and management standards and procedures to develop a robust and effective control environment – one where all colleagues understand their roles and obligations.

Our Chief Risk Officer ('CRO') leads 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're sufficiently robust – 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 we are operating within our risk appetite. She is the Bank's designated Money Laundering Reporting Officer ('MLRO'). The CRO has access, and a dotted reporting line, to the Chairman of the Risk Oversight Committee.

Our model has three lines of defence for risk management:

- Operational management, the colleagues who lead and manage our front line from day to day
- Governance and oversight, which is provided by the Risk function and includes all significant risk categories, such as credit risk, compliance and conduct risk, operational risk, market risk, interest rate risk and liquidity risk
- Internal Audit, which provides independent assurance through reviews and reports the results to the Audit Committee

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Year ended 31 December 2016 £'000
Interest income	2	301,946	213,486
Interest expense	3	(60,964)	(59,246)
Net Interest Income		**240,982**	**154,240**
Fee and commission income		29,715	22,189
Net gains on sale of investment securities		3,692	5,391
Other income		19,363	13,286
		293,752	**195,106**
Operating expenses		(231,409)	(179,767)
Depreciation and amortisation		(33,430)	(22,379)
Costs associated with listing		-	(1,841)
Listing Share Awards		(1,376)	(3,296)
Impairment of property, plant & equipment and intangible assets		(639)	(315)
Total operating expenses		**(266,854)**	**(207,598)**
Credit impairment charges		(8,223)	(4,706)
Profit/(loss) before tax		**18,675**	**(17,198)**
Taxation	4	(7,886)	445
Profit/(loss) for the year		**10,789**	**(16,753)**
Other comprehensive income/(expense) 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		2,745	13,937
- fair value gains transferred to the income statement on disposal		(3,692)	(5,391)
Total other comprehensive income/(expense)		**(947)**	**8,546**
Total comprehensive income/(loss) for the year		**9,842**	**(8,207)**
Earnings/(loss) per share			
Basic (pence)	10	12.8	(22.0)
Diluted (pence)		12.6	(22.0)

Condensed consolidated balance sheet
As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Assets			
Cash and balances with the Bank of England		2,111,630	434,612
Loans and advances to banks	5	100,388	65,816
Loans and advances to customers	5	9,620,326	5,865,370
Available for sale investment securities	6	360,704	604,127
Held to maturity investment securities	6	3,553,801	2,622,588
Property, plant and equipment	7	327,550	246,690
Intangible assets	8	148,231	92,515
Prepayments and accrued income		52,785	43,000
Deferred tax asset	4	53,697	56,279
Other assets		26,243	26,291
Total assets		**16,355,355**	**10,057,288**
Liabilities			
Deposits from customers		11,668,738	7,950,579
Deposits from central banks		3,320,900	543,000
Repurchase agreements		121,558	653,091
Other liabilities		148,270	106,083
Total liabilities		**15,259,466**	**9,252,753**
Equity			
Called up share capital	9	-	-
Share premium	9	1,303,503	1,027,645
Retained earnings		(219,404)	(230,193)
Other reserves		11,790	7,083
Total equity		**1,095,889**	**804,535**
Total equity and liabilities		**16,355,355**	**10,057,288**

Condensed consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Retained earnings £'000	Available for sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance as at 1 January 2017	-	1,027,645	(230,193)	(3,472)	10,555	804,535
Net profit for the year	-	-	10,789	-	-	10,789
Other comprehensive expense, net of tax, relating to available for sale investments	-	-	-	(947)	-	(947)
Total comprehensive income	-	-	10,789	(947)	-	9,842
Share issue		278,785	-	-	-	278,785
Cost of share issue		(2,927)	-	-	-	(2,927)
Net share option movements	**-**	**-**	**-**	**-**	5,654	5,654
Balance as at 31 December 2017	**-**	**1,303,503**	**(219,404)**	**(4,419)**	**16,209**	**1,095,889**
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	**-**	403,572	-	-	-	403,572
Cost of share issue	**-**	(5,231)	-	-	-	(5,231)
Net share option movements	**-**	-	-	-	7,226	7,226
Balance as at 31 December 2016	**-**	**1,027,645**	**(230,193)**	**(3,472)**	**10,555**	**804,535**
Notes	**9**	**9**				

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

Condensed consolidated cash flow statement
For the year ended 31 December 2017

	Notes	**Year ended 31 December 2017 £'000**	**Year ended 31 December 2016 £'000**
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:			
Profit/(loss) before tax		**18,675**	(17,198)
Adjustments for:			
Loss on disposal of property, plant and equipment and intangible assets		**132**	-
Impairment and other write-offs of property, plant and equipment and intangible assets	7,8	**881**	793
Depreciation and amortisation of intangible and tangible assets	7,8	**33,430**	22,379
Share option charge		**3,160**	1,873
Gain on sale of securities and fair value gains on derivatives		**(3,722)**	(5,376)
Accrued interest on and amortisation of investment securities		**2,080**	(4,152)
Changes in operating assets		**(3,755,114)**	(2,341,143)
Changes in operating liabilities		**5,994,389**	3,511,726
Net cash inflows from operating activities		**2,293,911**	**1,168,902**
Cash flows from investing activities			
Sales of investment securities		**309,335**	2,196,953
Purchase of investment securities		**(997,280)**	(3,403,039)
Purchase of property, plant and equipment	7	**(99,877)**	(97,828)
Proceeds from sale of property, plant and equipment and intangible assets	7,8	**41**	4
Purchase of intangible assets	8	**(70,398)**	(45,053)
Net cash outflows from investing activities		**(858,179)**	**(1,348,963)**
Cash flows from financing activities			
Share issues	9	**278,785**	403,572
Cost of share issues	9	**(2,927)**	(5,231)
Net cash inflows from financing activities		**275,858**	**398,341**
Net increase in cash and cash equivalents		**1,711,590**	**218,280**
Cash and cash equivalents at start of year		**500,428**	282,148
Cash and cash equivalents at end of year		**2,212,018**	**500,428**
Profit/(loss) before tax includes:			
Interest received		**296,489**	207,678
Interest paid		**(60,833)**	(53,246)
Cash and cash equivalents comprise of:			
Cash and balances with the Bank of England		2,111,630	434,612
Loans and advances to banks		100,388	65,816
		2,212,018	**500,428**

Notes

1. Summarised accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2016 Annual Report & Accounts. No new accounting policies have been adopted in the period under review, other than the adoption of mandatory accounting standards. The Group adopted IFRS 9, Financial Instruments, on 1 January 2018.

2. Interest income

	2017 £'000	2016 £'000
Investment securities	56,873	46,528
Loans and advances to customers	245,073	166,958
Total interest Income	**301,946**	**213,486**

3. Interest expense

	2017 £'000	2016 £'000
Interest on customer accounts	46,896	48,481
Interest on repurchase agreements	1,554	4,900
Interest on Term Funding Scheme ("TFS")	5,437	187
Other	7,077	5,678
Total interest expense	**60,964**	**59,246**

4. Taxation

Income tax (expense)/credit

	2017 £'000	2016 £'000
Current tax:		
Current income tax	(958)	(177)
Adjustment in respect of prior years	38	-
Total current tax expense	**(920)**	**(177)**
Deferred tax:		
Origination and reversal of temporary differences	(5,210)	(584)
Effect of changes in tax rates	(2,974)	280
Adjustment in respect of prior years	1,218	926
Total deferred tax (expense)/credit	**(6,966)**	**622**
Total tax (expense)/credit	**(7,886)**	**445**

4. Taxation (continued)

Reconciliation of the total tax (expense)/credit

The tax (expense)/credit shown in the income statement differs from the tax (expense)/credit that would apply if all accounting profits had been taxed at the UK corporation tax rate.
A reconciliation between the tax (expense)/credit and the accounting profit/(loss) multiplied by the UK corporation tax rate for the years ended 31 December 2017 and 2016 is as follows:

	2017 **£'000**	2016 £'000
Accounting profit/(loss) before tax	18,675	(17,198)
Tax expense at statutory income tax rate of 19.25% (2016: 20%)	**(3,595)**	**3,440**
Tax effects of:		
Non-deductible expenses - listing fees	-	(368)
Non-deductible expenses - depreciation on non-qualifying fixed assets	(2,628)	(2,261)
Non-deductible expenses - other	(537)	(863)
Share based payments	630	271
Adjustments in respect of prior years	1,218	(54)
Effect of changes in tax rates	(2,974)	280
Total tax credit/(charge)	**(7,886)**	**445**

Adjustments in respect of prior years

During the period to 31 December 2017 and 2016 we submitted an amendment to prior year corporate tax returns (years ended 2016 & 2015) that resulted in an increase in prior period losses. The amendments in 2017 related mainly to the reclassification of some store costs from non-qualifying to qualifying expenditure. The amendments in 2016 related mainly to prior period accounting adjustments to reflect actual VAT recovery following the Bank's agreement of a Partial Exemption Special Method with HMRC. In addition, 2017 and 2016 include prior year adjustments to share based payments where the current and deferred tax treatment has been subsequently revised.

Effect of changes in tax rates

Legislation restricting the amount of profit that may be offset by brought forward losses to 50% was substantively enacted on 31 October 2017 and was effective from 1 April 2017. As a result the relevant deferred tax balances have been remeasured using the effective tax rate that will apply. The impact of the change in tax rate has been recognised in tax expense. Banks are also subject to a lower threshold of 25% of profits that can be utilised against losses accrued by 1 April 2015. However, this loss restriction relief does not apply to the first five years of banking activity so this particular restriction will not impact us.

Effective tax rate

The effective tax rate for the year is 42.2% (2016: 2.6%) due to the impact of the loss restriction relief on the net deferred tax asset. The effective tax rate on profits, excluding the impact of the loss restriction relief, is 26.3%.

4. Taxation (continued)

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.

The following table shows deferred tax recorded in the statement of financial position and changes recorded in the Income tax expense:

	Unused tax losses	Available for sale securities	Share based payments	Property, plant & equipment	Intangible assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2017						
Deferred tax assets	56,936	1,117	10,990	-	228	**69,271**
Deferred tax liabilities	-	(1,226)	(368)	(7,747)	(6,233)	**(15,574)**
Deferred tax assets (net)	56,936	(109)	10,622	(7,747)	(6,005)	**53,697**
At 1 January 2017	61,403	(1,723)	6,195	(4,478)	(5,118)	**56,279**
Income statement	(3,787)	-	977	(3,269)	(887)	**(6,966)**
Other comprehensive income	(680)	1,614	-	-	-	**934**
Equity	-	-	3,450	-	-	**3,450**
At 31 December 2017	**56,936**	**(109)**	**10,622**	**(7,747)**	**(6,005)**	53,697
2016						
Deferred tax assets	61,403	183	6,840	-	177	**68,603**
Deferred tax liabilities	-	(1,906)	(645)	(4,478)	(5,295)	**(12,324)**
Deferred tax assets (net)	61,403	(1,723)	6,195	(4,478)	(5,118)	**56,279**
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

5. Loans and advances to customers and banks

Total loans and advances to customers

	31-Dec-2017	31-Dec-2016
	£'000	£'000
Gross loans and advances to customers	9,634,687	5,872,864
Less: allowance for impairment	(14,361)	(7,494)
Net loans and advances to customers	**9,620,326**	**5,865,370**
Amounts include:		
Repayable on demand or at short notice	160,251	49,215

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

Loans and advances to customers by category

	31-Dec-2017	31-Dec-2016
	£'000	£'000
Individual (retail customers):		
Overdraft	85,801	66,088
Credit cards	8,888	7,369
Term loans	121,728	107,584
Mortgages	6,231,415	3,604,591
Corporate:		
Overdraft	139,418	32,613
Credit cards	2,255	1,681
Term loans	2,816,499	1,874,104
Asset and Invoice Finance	228,683	164,295
Senior secured lending	-	14,539
Gross loans and advances to customers	**9,634,687**	**5,872,864**

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 “portfolio 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.

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

	31 December 2017	
	Loans and advances to customers £'000	**Loans and advance to banks £'000**
Neither past due nor impaired	9,486,149	100,388
Past due but not impaired	109,007	-
Individually impaired	12,282	-
Portfolio impaired	27,249	-
Total	**9,634,687**	**100,388**
Less: allowance for impairment	(14,361)	-
Total	**9,620,326**	**100,388**
Individually impaired	(2,579)	-
Collectively impaired*	(11,602)	-
Total	**(14,361)**	**-**

	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)**	-

*The collectively impaired provision includes provisions held against loans which are included in the neither past due nor impaired, the past due but not impaired and the portfolio impaired categories shown above.

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

	31-Dec-2017	31-Dec-2016
	£'000	£'000
Allowance for impairment at 1 January	(7,494)	(6,783)
Write offs	1,423	3,483
Balance sheet reclassification of operational loss provision	-	924
Increase in impairment allowance	(8,290)	(5,118)
Allowance for impairment at 31 December	**(14,361)**	**(7,494)**

Credit impairment charges in the Consolidated Statement of Comprehensive Income are shown net of recoveries on previously written off loans.

Past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being in early past due but not impaired.

Gross amounts of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2017	**Mortgages**	**Corporate**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Past due less than 7 days	26,972	36,922	1,322	**65,216**
Past due 7-30 days	19,373	18,665	823	**38,860**
Past due 31-60 days	2,447	447	599	**3,493**
Past due 61-90 days	830	67	541	**1,438**
Over 90 days	-	-	-	**-**
Total	**49,621**	**56,101**	**3,285**	**109,007**

31 December 2016	Mortgages	Corporate	Other	Total
	£'000	£'000	£'000	£'000
Past due 7 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**

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 2017			
Financial investments: available for sale	**289,941**	**70,763**	**360,704**
As at 31 December 2016			
Financial investments: available for sale	274,027	330,100	604,127

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 relevant to the Group 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 17 February 2017 £33.2 million, 18 April 2017 £60.4 million, 21 November 2017 £95 million, 19 December 2017 £87.8 million and on 22 December 2017 £46.1 million of financial assets classified as available for sale were reclassified as held to maturity. The carrying amount (excluding accrued interest) and fair value of the assets at 31 December were as follows:

	Carrying amount	Fair value
	£'000	£'000
At 31 December 2017	313,857	323,369

A £1.2 million fair value gain was recognised with respect to the reclassified assets in 2017; had these assets not been reclassified, a additional fair value gain of £0.9 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 2017 and 31 December 2017 ranged from 0.96% to 3.65%, with all cash flows expected to be recoverable.

At 31 December 2017, financial investments classified as held to maturity were as follows:

	Carrying amount	Fair value
	£'000	£'000
At 31 December 2017	**3,553,801**	**3,590,350**
At 31 December 2016	2,622,588	2,651,136

7. Property, plant and equipment

	Investment property £'000	Leasehold improvements £'000	Freehold land and buildings £'000	Fixtures, fittings and equipment £'000	IT hardware £'000	Total £'000
Cost or valuation						
01-Jan-2017	-	171,056	84,571	20,817	30,731	307,175
Additions	3,305	36,226	50,421	5,827	4,098	99,877
Disposals	-	(87)	-	(143)	(21)	(251)
Write offs	-	(186)	(53)	-	-	(239)
Transfers	7,547	(8,440)	956	(63)	-	-
Reclassifications	-	(69)	(372)	-	-	(441)
31-Dec-2017	**10,852**	198,500	135,523	26,438	34,808	406,121
Accumulated depreciation						
01-Jan-2017	-	21,982	3,376	10,937	24,190	60,485
Impairments	-	251	-	-	80	331
Charge for the year	81	8,171	1,216	3,739	4,672	17,879
Disposals	-	(2)	-	(82)	(10)	(94)
Write-offs	-	(14)	(13)	-	-	(27)
Transfers	-	(781)	1,018	(237)	-	-
Reclassifications	-	(3)	-	-	-	(3)
31-Dec-2017	**81**	29,604	5,597	14,357	28,932	78,571
Net book value	**10,771**	**168,896**	**129,926**	**12,081**	**5,876**	**327,550**

	Investment property £'000	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
Write offs	-	413	-	22	29	464
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. Intangible assets

	Goodwill	Customer contracts	Software	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
01-Jan-2017	4,140	600	101,797	106,537
Additions	-	-	70,398	70,398
Disposals	-	-	(22)	(22)
Write offs	-	-	(30)	(30)
Reclassifications	-	-	1,545	1,545
31-Dec-2017	**4,140**	**600**	**173,688**	**178,428**
Amortisation				
01-Jan-2017	-	205	13,817	14,022
Impairments	-	-	308	308
Charge for the year	-	60	15,491	15,551
Disposals	-	-	(6)	(6)
Reclassifications	-	-	322	322
31-Dec-2017	**-**	**265**	**29,932**	**30,197**
Net book value	**4,140**	**335**	**143,756**	**148,231**

Cost or valuation	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
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
Write offs	-	-	14	14
31-Dec-2016	**-**	**205**	**13,817**	**14,022**
Net book value	**4,140**	**395**	**87,980**	**92,515**

9. Share capital

We only have a single class of shares. As at 31 December 2017 we had 88.5 million ordinary shares of 0.0001p (31 December 2016: 80.3 million) authorised and in issue.

In July 2017, we issued 8.02 million ordinary shares of 0.0001p each, for consideration of £278 million. Related transaction costs of £2.9 million have been deducted from equity during the period.

Additionally, during the year we issued 0.2 million ordinary shares which relate to the exercise of previously awarded share options. These options contributed £892,000 to share premium.

	31-Dec-2017 £'000	31-Dec-2016 £'000
Called up ordinary share capital, issued and fully paid		
At beginning of year	**-**	-
Issued	**-**	-
At end of year	**-**	**-**

	31-Dec-2017 £'000	31-Dec-2016 £'000
Share premium account		
At beginning of year	1,027,645	629,304
Issued	278,785	403,572
Costs of share issued	(2,927)	(5,231)
At end of year	**1,303,503**	**1,027,645**

10. Earnings per share

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

	2017	2016
	£'000	£'000
Earnings/(loss) attributable to ordinary equity holders of Metro Bank	**10,789**	(16,753)
Weighted average number of ordinary shares in issue – basic ('000)	**84,412**	76,791
Basic earnings/(loss) per share (pence)	**12.8**	(22.0)

Diluted earnings/(loss) per share has been calculated based on the same earnings or 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 are treated as dilutive when their conversion to ordinary shares results in a reduction in earnings per share. As Metro Bank had a loss attributable to ordinary equity holders of Metro Bank in 2016, for this year 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. At 31 December 2017 all outstanding share options were considered dilutive.

	2017	2016
	£'000	£'000
Earnings/(loss) attributable to ordinary equity holders of Metro Bank	**10,789**	(16,753)
Weighted average number of ordinary shares in issue –diluted ('000)	**85,927**	76,791
Diluted earnings/(loss) per share (pence)	**12.6**	(22.0)

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

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.

31-Dec-2017	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	**2,111,630**	**-**	**-**	**2,111,630**	**2,111,630**
Loans and advances to banks	**100,388**	**-**	**-**	**100,388**	**100,388**
Loan and advances to customers	**9,620,326**	**-**	**-**	**10,084,203**	**10,084,203**
Investment securities	**3,914,506**	**922,006**	**3,029,048**	**-**	**3,951,054**
Liabilities					
Deposits from customers	**11,668,738**	**-**	**-**	**11,650,419**	**11,650,419**
Deposits from central banks	**3,320,900**	**-**	**-**	**3,320,900**	**3,320,900**
Repurchase agreements	**121,558**	**-**	**-**	**121,558**	**121,558**
31-Dec-2016					
Assets					
Cash and balances with the Bank of England	434,612	-	-	434,612	434,612
Loans and advances to banks	65,816	-	-	65,816	65,816
Loan 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	653,091

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

Key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors and members of the Executive Leadership Team are considered to be the key management personnel for disclosure purposes.

Key management compensation

Total compensation cost for key management personnel for the year by category of benefit was as follows:

	2017 **£'000**	2016 £'000
Short-term employee benefits	**4,817**	3,891
Share based payment cost	**2,388**	4,108
Total compensation for key management personnel	**7,205**	7,999

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost includes the IFRS 2 charge for the year associated with listing awards awarded in previous years. The cost includes the in-year IFRS 2 costs for Listing Share Awards granted to selected key management personnel in recognition of their significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange.

12. Related party transactions (continued)

Banking transactions with key management

The Group provides banking services to Directors and other key management personnel and persons connected to them. Loan transactions during the year and the balances outstanding at 31 December were as follows:

Loans payable to the bank	**2017 £'000**	2016 £'000
Loans outstanding at 1 January	**3,191**	2,529
Loans relating to former key management personnel	**-**	(529)
Loans relating to persons and companies no longer considered related parties	**(321)**	-
Loans outstanding at 1 January for current key management personnel	**2,870**	2,000
Loans issued during the year	**349**	1,250
Loan repayments during the year	**(262)**	(59)
Loans outstanding at 31 December	**2,957**	3,191
Interest expense on loans payable to the bank	**80**	82

There were seven (31 December 2016: nine) loans outstanding at 31 December 2017 totalling £3.0m (31 December 2016: £3.2m). Of these, six are residential mortgages and one is an unsecured loan; all loans were provided on normal commercial terms which can be found on our website (www.metrobankonline.co.uk).

In addition to the loans detailed above, the bank has issued credit cards and granted overdraft facilities on current accounts to directors and key management personnel. At 31 December 2017 there was only one overdrawn current account (£296) to directors and key management personnel and all outstanding credit card balances were repaid in January 2017.

Credit card balances outstanding at 31 December were as follows:

	2017 £'000	2016 £'000
Credit cards outstanding at 31 December	**27**	10

Deposit balances outstanding at 31 December were as follows:

	2017 £'000	2016 £'000
Deposits outstanding at 1 January	**5,193**	4,544
Deposits relating to persons and companies no longer considered related parties	**(2,967)**	-
Deposits relating to new key management personnel	**44**	-
Net amounts deposited	**1,163**	649
Deposits outstanding at 31 December	**3,433**	5,193

12. Related party transactions (continued)

Other transactions with related parties

The following transactions were carried out with related parties:

	2017	2016
	£'000	£'000
Architectural design services	**4,135**	2,635
Branding, marketing and advertising	**513**	521
Total purchase of services with entities connected to key management personnel	**4,648**	3,156
Amounts outstanding as at 31 December owed by Metro Bank	**23**	382

Architecture, design and branding services are provided by InterArch, Inc. ("InterArch"), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II, the Non-Executive Chairman.
In order to ensure that the terms of the InterArch arrangements are consistent with those that could be obtained from an independent third party and in accordance with the Articles, the contractual arrangements with InterArch are subject to periodic review by our Audit Committee using benchmarking reviews conducted by independent third parties. The Audit Committee have concluded that contracts for services with InterArch are at arm's length and are at least as beneficial as those which could be obtained in the market from an alternative supplier.

Architectural design services

InterArch provide various architectural design services, including pre-design, architectural design, interior design, facilities coordination, construction management, landscape architectural, signage, security design and layout and procurement services. The fee structure for each project is based on a fixed percentage of projected hard costs. Certain additional services are provided on an hourly basis. The contract for architectural design services is currently under renegotiation and the Audit Committee has taken steps to ensure that it will continue to be at arm's length as part of the renegotiation process.

Branding, Marketing and Advertising

InterArch also provide branding, marketing and advertising services. The agreement terminated on 31 December 2017 and a new agreement was signed in January 2018 covering the period up to 31 December 2018.

13. Post Balance Sheet Events

There have been no reportable post balance sheet events.

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.

ENDS

About Metro Bank

Metro Bank is the revolution in British banking. It is celebrated for its exceptional customer experience and its trusted products, and was awarded 'Most Trusted Financial Provider' at the Moneywise Customer Service Awards 2017, as well as 'Best Financial Provider' at the Evening Standard Business Awards 2017 and 'Bank of the Year' at the CityAM Awards 2016.

Offering retail, business, commercial and private banking services, it prides itself on using technology to give customers the choice to bank however, whenever and wherever they choose. Whether that's through its growing network of stores open seven days a week, from early in the morning to late at night, 362 days a year; on the phone through its UK-based 24/7 contact centres manned by people not machines; or online through its internet banking or award-winning mobile app.

The bank employs over 3,000 colleagues and is headquartered in Holborn, London.
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.

It is 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.