THIS RELEASE (AND THE INFORMATION CONTAINED HEREIN) IS NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN OR INTO, THE UNITED STATES, JAPAN, SOUTH AFRICA OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DISTRIBUTE THIS ANNOUNCEMENT.

Metro Bank PLC
Full year results and Q4
Trading Update 2018
26 February 2019

METRO BANK REPORTS CONTINUED GROWTH IN LENDING, DEPOSITS AND CUSTOMER ACCOUNTS AND IS NAMED BEST BANK FOR CUSTOMER SERVICE: STRATEGIC EVOLUTION ANNOUNCED TO OPTIMISE BALANCE OF GROWTH, PROFITABILITY AND CAPITAL EFFICIENCY

Metro Bank PLC (LSE: MTRO LN)

2018 full year highlights

- Record deposit growth of £4.0b; up 34% year-on-year to £15.7b.
- Net deposit growth per store per month of £5.9m ($7.5m); £70.8m ($90m) growth a year.
- Record lending growth of £4.6b; up 48% year-on-year to £14.2b. Loan to deposit ratio 91%.
- Strong asset quality maintained, with cost of risk improving to 0.07% from 0.11% in 2017.
- Underlying profit before tax at £50.0m ($63.5m); up 140% year-on-year from £20.8m ($26.4m).
- Statutory profit before tax at £40.6m, up 117% from £18.7m.
- Underlying earnings per share 39.4p vs. 18.8p in 2017; up 110% year-on-year.
- Record increase in customer accounts of 403,000 to 1,620,000.

Strategic update

- Best bank for overall quality of service for personal banking in the latest CMA survey.
- Winner of top award of £120m from the Capability and Innovation ('C&I') Fund of the RBS Alternative Remedies package to accelerate our SME offering.
- We remain a high growth business model centred on creating FANS through our integrated digital and physical experience and will evolve in the prevailing operating environment:
  - Optimise balance of growth, profitability and capital efficiency.
  - Expand range of services and drive fee income.
  - Deliver cost efficiency improvement.
- Revised medium term targets announced.
- Comprehensive review undertaken regarding RWA adjustment.
- Committed standby underwrite in place to raise c.£350m to fund growth.
- Announcing a number of changes to our Board and Committees.

Note: All figures contained in this trading update are unaudited. All figures in US$ have been translated at a rate of $1.27 to the £.

Year ended *£ in millions*	31 December 2018	31 December 2017	Change in Year
Assets	£21,647	£16,355	32%
Loans	£14,235	£9,620	48%
Deposits	£15,661	£11,669	34%
Loan to deposit ratio	91%	82%	
Total revenue	£404.1	£293.8	38%
Underlying profit before tax[1]	£50.0	£20.8	140%
Statutory profit before tax	£40.6	£18.7	117%
Customer NIM	2.21%	2.19%	2bps
Customer NIM + fees	2.67%	2.69%	(2bps)
Net interest margin	1.81%	1.93%	(12bps)
Underlying EPS- basic	39.4p	18.8p	110%
Underlying EPS- diluted	38.2p	18.5p	106%

1. Underlying profit before tax for the year excludes Listing Share Awards, impairment of property, plant & equipment ('PPE') and intangible assets and costs relating to the RBS alternative remedies package application costs. Where underlying profit is disclosed for a quarter this also excludes the financial services compensation scheme ('FSCS') levy. Statutory Profit after tax is included in the Profit and Loss Account.

Craig Donaldson, Chief Executive Officer at Metro Bank said:

"These are a strong set of results demonstrating progress across all key areas despite an uncertain and challenging environment. While our strategy is delivering, we need to evolve to ensure continued progress over the medium term. Today's update on our growth, cost efficiency plans and capital requirements – enhanced by last week's C&I fund award - outlines how we are building the best bank for customer service whilst continuing our focus on generating growth and strong long-term returns for shareholders."

Vernon Hill, Chairman and Founder at Metro Bank, added:

"Metro Bank's model continues to disrupt the status quo in British Banking. Over the past twelve months we've seen record lending, record deposits and over 400,000 new customer accounts, leading to a 140% increase in underlying profit before tax. We've also out performed every big high street bank for overall service in the recent CMA survey. Last week's top award of £120m for SMEs is indicative of what a great customer proposition can achieve. Whilst the external environment is not without its challenges, we will make continued progress by bringing a better service and greater convenience to thousands of customers and businesses every day, and the strategic steps and planned equity raise that we have announced today will help support our future growth."

Strategic Update and Outlook

- **We remain a business centred on creating FANS, attracting low-cost sticky deposits and lending at low risk through our integrated customer experience**. The recently published independent survey carried out by the CMA highlights Metro Bank as the best bank for overall service quality in personal banking. We continue to focus on the customer experience through integrating our physical and digital services, attracting customers on service and convenience, and lending at low risk.

- **Changes in the prevailing operating environment have created headwinds.** Competition in the mortgage market has put margins under pressure, whilst requirements to raise new loss absorbing debt (MREL) have coincided with elevated pricing in the wholesale debt markets. Furthermore, complying with the rapid pace of regulatory change has weighed on our cost:income progress.

- **Coupled with specific Metro Bank challenges.** We recognise that the pace of improving operating leverage has been too slow and requires investment to transform back-office functions to scale appropriately with our growth. The previously announced RWA adjustment has also led to the reassessment of our return hurdle rates in certain asset classes.

- **Our strategic evolution builds on the strengths of our model with a balance of profitability and capital efficiency.** We will evolve our business strategy to balance growth, profitability and capital efficiency through an integrated customer experience:

  1) **Balance growth, profitability and capital efficiency.** Given the prevailing margin environment we will moderate deposit growth to c.20% per annum by reducing the proportion of higher cost term deposits and manage the loan to deposit ratio within a 85-90% range. Store growth will be reduced to c.8 stores per year in addition to a further 30 stores added by 2023 from the C&I fund, complemented by enhanced digital origination and servicing.

  2) **Rebalance lending mix to optimise capital allocation and returns** centred around Mortgages and SME, whilst maintaining our low risk appetite. We will develop our capabilities in higher-returning SME lending and move into unsecured consumer and business lending with new integrated platforms.

  3) **Expand range of services to create new sources of income** through the introduction of new services, maximising customer value and leveraging market-leading APIs, especially for SMEs. This will be strongly supported by the funding from the C&I award.

  4) **Deliver cost efficiency improvement.** We anticipate delivering a cost:income ratio of 55-60% in the medium-term, with the majority of the improvements coming from a structured programme of already identified initiatives, including the automation of back office processes and shared services across the footprint.

- **We will maintain a strong capital position to support further growth, and plan to raise c.£350m of equity in 2019.** We have a committed standby underwrite in place with RBC Capital Markets, Jefferies and KBW to support the planned equity raise. The Chairman and Executive Directors intend to participate in the equity raise and it is expected to launch in the first half of the year. It remains our intention to target a minimum CET1 ratio of 12% and a regulatory leverage ratio above 4%. We also plan to

issue c.£500m of MREL-eligible securities in 2019 to meet our transitional MREL requirement by 1 January 2020.

- **AIRB migration for residential mortgages is ongoing** and we now do not expect accreditation before 2021**.**

- The strategic update is reflected in the medium term guidance below:

	Medium term guidance
Deposit growth	c.20% per annum, c.2% share of the market by 2023
Store growth	c.8 new stores a year plus C&I funded store growth (2 stores in 2019)
Average deposits per store per month	>£4m
Loan to deposit ratio	85% – 90%
Cost of risk	15bps – 30bps through the cycle
Cost:income ratio	55% - 60% by 2023
Capital	12% minimum CET1 ratio and leverage ratio >4%
ROE	Low double digit RoE by 2023

RBS Alternative Remedies Package

- **Awarded top £120m grant from the Capability & Innovation ("C&I") Fund.** Successful bid focussed on:
  - **Accelerating national store coverage** by expanding to new strong SME markets in the North with 30 new stores by 2023;
  - **Launching game changing digital capabilities** e.g. digital tax submission, online account opening; and
  - **Building capabilities to serve larger, more complex SMEs** e.g. sweeping / pooling, trade finance accelerating our growth to become an "at scale" SME challenger by 2025.

- **Award will support the strategic growth initiatives outlined above in a financially prudent way.** The £120m grant is received as cash so there is no immediate capital impact. Management expects a marginally negative earnings impact in the short-term but turning positive as revenue from new capabilities materialises. Metro Bank has committed to match the grant with co-investment of £240m, of which it expects 75% to be capitalised. We plan to fund two stores in 2019, with the remaining balance by 2023. The C&I grant will be used to fund the first 18 months of frontline roles.

- **Selected to be part of the Incentivised Switching Scheme** which opened on 25 February 2019**.** We are well positioned to welcome more SME customers to Metro Bank.

Financial highlights for the year and quarter ended 31 December 2018

Deposits

- **Total deposits increased to £15,661m as at 31 December 2018, up from £11,669m at 31 December 2017 and £14,813m at 30 September 2018**; representing year-on-year growth of 34% and 6% growth in the last quarter. Deposits from business and commercial customers represented 53% of total deposits as of 31 December 2018, in line with last year.

£ in millions	**31 December 2018**	**31 December 2017**	**Change from full year 17**	**30 September 2018**	**Change from Q3 18**
Demand: current accounts[2]	£4,685	£3,682	27%	£4,502	4%
Demand: savings accounts[3]	£6,924	£5,303	31%	£6,810	2%
Fixed term: savings accounts	£4,052	£2,684	51%	£3,501	16%
Deposits from customers	£15,661	£11,669	34%	£14,813	6%

Deposits from customers includes:

Deposits from retail customers	£7,429	£5,476	36%	£6,768	10%
Deposits from business and corporate customers	£8,232	£6,193	33%	£8,045	2%

2. Not all current accounts are non-interest bearing. At 31 December 2018 £4,507 million (31 December 2017: £3,487 million) of current accounts were non-interest bearing representing 96% of the total (31 December 2017: 95%).The remainder of the accounts pay only a small interest rate.
3. Included within demand: savings accounts are notice accounts. These are repayable upon 30, 35, 60, 95 or 100 days' notice.

- **Net deposit growth per store per month of £5.9m for the full year 2018** representing annualised deposit growth per store of £70.8m ($89.9m).

- **Cost of deposits was 61bps for full year** up from 54bps in 2017, primarily reflecting base rate rises in November 2017 and August 2018. The increase in cost of deposits in the second half, that includes a 6bps rise in the fourth quarter, is significantly less than the full 25bps base rate increase in August. Our low deposit cost model, supported by a high proportion of current accounts, has delivered total cost of deposits that is below the current base rate of 75bps.

- **Comparative store deposit growth** (a "like for like" measure of deposit growth using deposit numbers from stores that have been operating for more than a full year) is 31% as of 31 December 2018.

Loans

- **Total net loans as of 31 December were £14,235m, up from £9,620m at 31 December 2017.**

£ in millions	**31 December 2018**	**31 December 2017**	**Change from full year 17**	**30 September 2018**	**Change from Q3 18**
Gross Loans and advances to customers	£14,269	£9,635	48%	£13,152	8%
Less: allowance for impairment[4]	£(34)	£(15)	127%	£(31)	10%
Net Loans and advances to customers	£14,235	£9,620	48%	£13,121	8%
Gross loans and advances to customers includes:					
Commercial loans	£4,356	£3,187	37%	£4,166	5%
Retail mortgages	£9,625	£6,231	54%	£8,715	10%
Consumer lending	£288	£217	33%	£271	6%

4. The allowance for impairment is calculated under IAS 39 as at 31 December 2017 and under IFRS 9 at 30 September 2018 and 31 December 2018.

- **Retail mortgages remain the largest component of our lending book** at 67% of gross lending (31 December 2017: 65%) helped by the acquisition of a seasoned mortgage portfolio in March 2018.

- **Net interest margin at 1.81% compares to 1.93% for the prior year,** with the margin at 1.76% in the fourth quarter. Net interest margin compression follows elevated levels of competition in the mortgage market combined with a rising cost of funding following the August base rate rise and debt servicing costs on the Tier 2 bond issued in June. We expect competitive conditions to continue for the short-to-medium-term, together with increased financing costs in due course from MREL debt.

- **Loan to deposit ratio increased to 91% (31 December 2018: 82%)** driven by our fifth successive quarter of £1bn+ lending growth. The transition to a moderated growth profile during 2019 may result in the loan to deposit ratio staying in excess of 90% for a short period.

- **Asset quality remains strong, in line with our low risk lending approach.** Cost of risk remained low at 0.07% (31 December 2017: 0.11%). Non-performing loans also reduced to 0.15% of the portfolio (31 December 2017: 0.27%), with non-performing loan coverage of 162%. The impairment allowance increased year-on-year following the adoption of IFRS 9 in January 2018.

Profit and Loss Account

- **Underlying profit before tax increased by 140% year-on-year to £50.0m, up from £20.8m in 2017,** reflecting strong growth in lending combined with improving economies of scale. Profit in the fourth quarter was £11.2 million, impacted by reduced net interest margin in the final months of the year. Operating costs increased in the final quarter owing to heavy investment spend in stores and technology as well as additional project costs relating to regulatory change and scaling the back-office to power future growth.

- **Statutory profit before tax increased by 117% year-on-year to £40.6m, up from £18.7m in 2017.** This reflects the strong performance outlined above, as well as additional costs from preparing for the RBS Alternative Remedies Capability and

Innovation fund bid and Switching Scheme, and impairment of assets as part of our periodic review.

- **Cost:Income ratio has decreased to 86% year-on-year from 90% in 2017,** benefitting from positive operating jaws with income growth of 37% outpacing cost growth of 30%. The fourth quarter saw a temporary reversal of operating jaws leading to a cost:income ratio of 88%.

- **Customer net interest margin at 2.21% was a modest improvement on 2.19% in the prior year**, reflecting competition in the residential mortgage market offset by the higher loan to deposit ratio. In the fourth quarter Customer NIM declined by 2bps to 2.19% whilst absorbing a 5bps increase in cost of deposits as the effect of the August base rate rise flowed through. However, we continue to lend into low-risk assets which management believes preserves cost of risk in the long term and provides the right foundation on which to grow.

- **Customer net interest margin plus fees increased slightly to 2.67% in the quarter from 2.66%, reflecting progress on fee initiatives.**

Capital

- **Capital ratios remain robust.** Common Equity Tier 1 Capital ('CET1') was £1,171m as at 31 December 2018 representing 13.1% as a percentage of risk weighted assets. Lending growth during the year was supported by the completion of a £303m equity raise in July 2018. Our minimum target CET1 ratio of 12.0% provides a buffer above our Tier 1 regulatory requirement of 10.6%[5]. Our year-end total capital ratio of 15.9% was supported by the successful subordinated debt issuance of £250m, which qualifies as Tier 2 capital. The Regulatory Leverage ratio is 5.4%.

- **Risk weighted assets at 31 December 2018 were £8,936m** up 52% year-on-year (31 December 2017: £5,882m). This includes an increase of £900m following the adjustment to the risk weighting of certain commercial loans secured on property and certain specialist buy-to-let loans to large portfolio landlords as previously announced. We have completed a review of classification and risk-weighting across the commercial loan portfolio, supported by an external advisor. We are implementing changes to our internal procedures, are recruiting additional expertise and commenced a remediation of internal systems, process and controls.

- **Metro Bank has received initial notification that the PRA and FCA intend to investigate the circumstances and events that led to the RWA adjustment announced on 23 January 2019**.

- **IFRS 16 adopted from 1 January 2019 with an expected £313m increase in RWAs.**

5. Based on current capital requirements, excluding any confidential PRA buffer, if applicable

Customer Experience

- **Customer accounts exceeded 1.6m**, increasing from 1,520,000 at 30 September to 1,620,000 at 31 December 2019; a quarterly increase of 100,000.

- **Ranked first for personal current account holders for overall service quality** in the latest Competition and Market Authority's ('CMA') Service Quality Survey. We also came second among business current account customers for overall service quality and were ranked in the top five for all qualifying business and personal services.

- **Enhanced our digital offering**, launching international payments for personal and business customers directly from our app, enabling our customers to make payments in Euros, US dollars and GBP sterling to more than 38 countries.

- **Launched Insights**, our app-based Artificial Intelligence powered money management tool, as we continue to develop the customer experience across all channels.

- **Launched award winning current account opening online,** named Retail Banker's 2018 "Best Digital Onboarding Strategy", and also launched instant access savings application online.

- **Now have the second highest rated bank app overall.**

- **Expanded the network**, opening stores in Bath, Crawley, Northampton, Putney, Ashford, and Piccadilly in the fourth quarter and neared completion of Moorgate, which opened in January. We now have 66 stores ranging from Canterbury in the East to Bristol in the West of England with a further seven stores in advanced planning stages or under construction.

- **Recognised by Glassdoor as a Best Place to Work**, ranked 21st as part of the job site's Employee's Choice Awards, and the highest rated UK bank.

Board and committee changes

- From 1 April 2019 Sir Michael Snyder will succeed Ben Gunn as Senior Independent Director. Ben Gunn will take on a newly created role of Deputy Chairman.

- At the same time, Sir Michael Snyder will become Chair of the Audit Committee, replacing Stuart Bernau who will continue as a Non-Executive Director.

- Lord Howard Flight will step down from the Board on the 1 April 2019 after 9 years and will not be standing for re-election at the AGM. He will be succeeded as Chair of the Nomination and Remuneration Committee by Roger Farah.

- The Board continues its proactive search for an additional independent non-executive director to ensure continued compliance with the UK Corporate Governance Code.

- The above changes in Committee Chair and Senior Independent Director roles are subject to regulatory approval. The number of Non-Executive Directors on the Board will be nine following the appointment of Catherine Brown and Paul Thandi as new Independent Non-Executive Directors over the last six months. The full list of Board members can be found on our website.

Metro Bank PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	Annual Growth Rate	2018		2017
		31-Dec	30-Sep	31-Dec
		£'m	*£'m*	*£'m*
Assets				
Loans and advances to customers	48%	14,235	13,121	9,620
Treasury assets[6]		6,604	6,698	6,127
Other assets[7]		808	748	608
Total assets	32%	**21,647**	**20,567**	**16,355**
Liabilities				
Deposits from customers	34%	15,661	14,813	11,669
Deposits from central banks		3,801	3,801	3,321
Debt securities		249	249	-
Other liabilities		533	300	269
Total liabilities		**20,244**	**19,163**	**15,259**
Total equity		**1,403**	**1,404**	**1,096**
Total equity and liabilities		**21,647**	**20,567**	**16,355**

6. Comprises investment securities, cash & balances with the Bank of England, and loans & advances to banks
7. Comprises property, plant & equipment, intangible assets and other assets

Profit & Loss Account	Annual Growth Rate	12 months to 31 December	
		2018	**2017**
		£'m	*£'m*
Net interest income		330.1	241.0
Fee and other income		63.3	49.1
Net gains on sale of assets		10.7	3.7
Total revenue	38%	**404.1**	**293.8**
Operating costs	31%	(346.1)	(264.8)
Credit impairment charges		n/a	(8.2)
Expected credit loss expense		(8.0)	n/a
Underlying profit before tax	140%	**50.0**	**20.8**
Underlying taxation		(13.4)	(4.9)
Underlying profit after tax	130%	**36.6**	**15.9**
Listing Share Awards		(0.9)	(1.4)

Impairment of property plant & equipment and intangible assets		(4.8)	(0.6)
Costs relating to RBS alternative remedies package application		(3.8)	(0.1)
Effect of changes in tax rate on deferred tax asset		-	(3.0)
Statutory profit after tax	151%	**27.1**	**10.8**
Underlying earnings per share - basic		39.4p	18.8p
Underlying earnings per share - diluted		38.2p	18.5p

Profit & Loss Account-Quarterly	**Annual Growth Rate**	**2018**		**2017**
		Q4	**Q3**	**Q4**
		£'m	*£'m*	*£'m*
Net interest income		88.9	84.8	69.3
Fee and other income		18.3	16.2	13.8
Net gains on sale of assets		2.0	4.0	1.5
Total revenue	29%	**109.2**	**105.0**	**84.6**
Operating costs	31%	(96.0)	(87.9)	(73.1)
Credit impairment charges		n/a	n/a	(3.2)
Expected credit loss expense		(2.0)	(2.0)	n/a
Underlying profit before tax	35%	**11.2**	**15.1**	**8.3**
Underlying taxation		(4.2)	(3.5)	(1.7)
Underlying profit after tax	6%	**7.0**	**11.6**	**6.6**
Listing Share Awards		(0.2)	(0.2)	(0.3)
FSCS levy (net of tax)		-	0.3	-
Impairment of property plant & equipment and intangible assets		(3.0)	(1.2)	(0.2)
Costs relating to RBS alternative remedies package application		(1.9)	(0.5)	(0.1)
Effect of changes in tax rate on deferred tax asset		-	-	(3.0)
Statutory profit after tax	(37)%	**1.9**	**10.0**	**3.0**
Underlying earnings per share - basic		7.2p	11.9p	7.5p
Underlying earnings per share - diluted		7.1p	11.6p	7.4p
Net interest margin (NIM)		1.76%	1.77%	1.87%
Customer NIM		2.19%	2.21%	2.21%
Customer NIM + Fees		2.67%	2.66%	2.71%
Cost of deposits		0.67%	0.61%	0.52%
Cost of risk		0.06%	0.06%	0.14%
Underlying cost:income ratio		88%	84%	86%

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 and was authorised for release by David Arden, Chief Financial Officer.

Analyst and investor call

An analyst and investor call will be held as follows:

Date: Tuesday 26 February 2019 Time: 5.30pm (GMT) From the UK dial: +44 3333 000 804 From the US dial: +1 631 913 1422 Participant Pin: 15129632# 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. A replay of the call will be available using the following details: From the UK dial: +44 3333 000 819 From the US dial: +1 866 931 1566 Access code: 301274944#

For more information, please contact:

Metro Bank PLC Investor Relations
Jo Roberts
+44 (0) 20 3402 8900
jo.roberts@metrobank.plc.uk

Metro Bank PLC Media Relations
Tina Coates
+44 (0) 7811 246016
pressoffice@metrobank.plc.uk

Teneo
Anthony Silverman/ Charles Armitstead
+44 (0) 207 420 3187
Metrobank@teneo.com

Metro Bank PLC

Preliminary Announcement

(Unaudited)

For the year ended 31 December 2018

Chief Executive Officers Statement

2018 was another successful year of strong growth for Metro Bank. Despite a challenging operating environment, especially in the fourth quarter, the model continued to go from strength to strength. We've delivered this growth while continuing to make substantial investment in our digital and physical infrastructure and maintaining our unique culture.

I am particularly proud that our achievements were recognised in the CMA customer satisfaction survey that was published in February 2019, coming top for personal and second for business banking for overall quality of service. Delivering this exceptional level of customer service while growing our balance sheet by 32% year-on-year is truly impressive.

Our success in securing the top award of £120 million from the Capability and Innovation Fund as part of the RBS State aid Alternative Remedies package is recognition of our commitment to the underserved small and medium enterprise ('SME') banking market. These funds will allow us to accelerate our plans to bring much needed competition to SME hotspots in the North of England, while also investing in our digital capabilities.

Although the business is performing well the back half of the year, particularly the fourth quarter, saw us face headwinds from the wider macro-economic environment and particularly in the form of NIM compression, as despite a further base rate rise, yields fell. This is primarily due to excess market liquidity following the introduction of ring fencing for our larger competitors.

Looking forward, we remain committed to our core strategy of creating FANS, attracting low-cost sticky deposits and lending at low risk through our integrated customer experience of "bricks and clicks" banking. However, we are conscious of the need to adapt to the challenging conditions in the wider economic, commercial and regulatory environment. To that end we are implementing a range of strategic initiatives to deliver the next phase of our growth. Our key objective is to balance growth with profitability and capital efficiency, which means moderating our rate of growth in response to the prevailing margin environment. Furthermore, we will diversify our lending mix to access attractive segments and optimise our consumption of capital. Revenue growth will be accelerated by expanding our fee income through new value-added services, especially for SMEs supported by our C&I award. Finally, we must accelerate our cost efficiency by driving our operating leverage now we are achieving scale throughout the bank, and we have a procurement base to drive these initiatives.

Together these initiatives will place us in a better position to continue to deliver high growth in a capital efficient way, and I look forward to reporting on progress.

In January 2019 we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million. Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. We have worked hard to implement the lessons learned from this.

Finally, I would like to thank everyone at Metro Bank including our customers, colleagues and shareholders, without whom building the revolution in British banking would not be possible – I thank you all.

Craig Donaldson

Chief Executive Officer

Operating review

Our strategy
We are a high-growth retailer delivering best-in-class banking. We do this by:

- creating FANS with our integrated customer experience model;
- fostering our unique culture;
- growing our low-cost sticky deposits; and
- offering low-risk and diversified lending.

Over the course of 2018 we have continued to deliver progress in all of these areas, despite a challenging operating environment in the second half of the year. As well as delivering year-on-year balance sheet growth of 32% we have been rated first for overall quality of service for personal banking in the latest CMA survey and also awarded £120 million from the Capability and Innovation Fund of the RBS Alternative Remedies package, which will accelerate our SME offering.

A truly integrated model
2018 has seen us deliver record investment in both our digital and physical offerings, as well as the integration of the two, in order to make our customers' lives easier.

As well as the rollout of "Current Account Online" opening for our retail customers we also launched our "Walk Out Trading" service for business accounts. Walk Out Trading is revolutionising SME banking, allowing businesses to receive a card terminal in store, so that they can accept debit and credit card payments as soon as they open their account. We understand that running a business can be time pressured enough and therefore, we aim to make our business banking services as convenient and streamlined as possible. Business current accounts can be set up on the spot in store without an appointment in a matter of hours, rather than days or weeks. It is services like this that are leading us to win 15% of business switchers in the London area.

During the year, we continued to expand our store network by opening 10 new stores. This included the opening of a flagship hub store in Bristol. Alongside the banking hall, the site also houses a Metro Bank University site as well as space for a back office team to support our growth in the West Country and Wales in the years ahead.

In January, we opened our 66th store in Moorgate in London and have a further seven stores in build. We will open in new locations and markets including Enfield, Cardiff and the Midlands during 2019. The £120m award from the Capability and Innovation Fund will accelerate the pace of our growth into the North of England.

Our digital capabilities also continue to expand at pace and in October we launched our artificial intelligence tool – Insights – on our mobile app. Insights can identify patterns, trends and upcoming payments in customers' accounts and then create personalised reports and analysis to allow them to better understand how they are using their money. The feedback we have received in the few months this has been live has been phenomenal. Looking ahead we have plenty more exciting projects under development to continue to improve our customers' experience integrated across "bricks and clicks".

Culture is at the heart of what we do
Out of everything we do at Metro Bank, our culture is at our heart. Creating a truly differentiated approach to banking cannot be achieved without the right people and attitude.

During the year we welcomed over 800 new colleagues to the bank. In addition, we continued to develop our colleagues, and promoting more than 730 to roles with greater responsibility. In October, we launched an MSc in Retail and Digital Banking, designed in partnership with Cranfield University. This continues to build on our core belief of hiring for attitude and training for skill. By investing in our colleagues across the bank through initiatives such as this, we are ensuring that we will continue to be a disruptive force in UK retail banking.

2018 also saw us expand the work we do within our communities. During the year we hosted 3,500 community and charity events in our stores as well as taking over 41,000 school children through our

financial education programme, Money Zone. We also continued to support our two charity partners, Place2Be and Alzheimer's Society, and colleagues have raised over £140,000 for these important causes during the year.

Deposit led banking

In 2018 we created more FANS than ever before, who in turn each trust us to deliver exceptional service at every point of contact. Despite an increasingly competitive marketplace for savings we grew our deposits by 34% to over £15 billion and continued to do so at low cost. This was assisted by the expansion of our network by another 10 stores, with new markets including Southampton, Oxford and Bristol.

At the start of the year we launched "Current Account Online" opening, allowing people all over the country to join the revolution. This technology is truly game changing, allowing retail customers to open an account in less than 10 minutes, using 'selfie' identification technology. It also allows people who live near our network to order online and pick up their card straight away in store, finally bringing the era of "click and collect" to banking.

	2018	**2017**	**Growth**
Deposits	£15.7bn	£11.7bn	34%
Commercial	53%	53%	-
Retail	47%	47%	-
Net average deposit per store per month	£5.9m	£6.3m	(6)%
% current accounts	30%	32%	
Cost of deposits	0.61%	0.54%	8bps

Low-risk lending

The UK mortgage landscape remains challenging as despite a further base rate rise, mortgage yields remain broadly flat. In spite of this headwind our lending engines continued to deliver gains in market share, largely driven through organic lending growth.

For the second year running we met our pledge to provide £1 billion of net lending to businesses. Given our own entrepreneurial beginnings, we understand the important role that access to finance plays for all organisations. Delivering this pledge has allowed thousands of businesses to grow, recruit and innovate, benefiting their communities and contributing to the success of the UK economy.

We continue to have local business managers in store and on the phone whenever customers need them and remain committed to offering simple and fair products to our customers.

Strong capital base

Our balance sheet continues to be underpinned by our strong capital position, supported by a further equity capital raise of £303 million in July 2018.

We also completed our first ever Tier 2 debt issuance, to support our growth. I am grateful to our investors, both existing and new, who believe in our model and supported these transactions.

Looking forward, maintaining a strong capital position while having the resources to support further capital efficient growth remains a key focus for us. We plan to raise equity of c.£350m in 2019 and have a committed standby underwrite to support the transaction. The Chairman and Executive Directors also intend to participate in this fund raise.

It remains our intention to maintain a minimum CET1 ratio of 12% and a regulatory leverage ratio above 4%. Our capital planning also includes the issuance of c.£500m of MREL-eligible securities in 2019 to meet our transitional MREL requirement by 1 January 2020.

Awards and recognition
2018 saw our work recognised across the board, including being named as one of the UK's 25 best companies to work for by Glassdoor.

We were also ranked top for overall service quality in personal banking in the second Competition and Market Authority's (CMA) Service Quality Survey released in February 2019. We also came second among business account holders. We were the only bank to achieve a top five spot for all qualifying business and personal services.

Strategic update

Our integrated customer experience model is working well and we remain committed to our core strategy of creating FANS, attracting low-cost sticky deposits and lending at low risk. However, we are conscious of the need to adapt to the conditions in the wider economic, commercial and regulatory environment. To that end we are implementing four strategic initiatives to deliver the next phase of our growth: i) balancing growth with profitability and capital efficiency; ii) rebalancing lending mix to optimise capital allocation and returns; iii) expanding our range of services to create new sources of income; and iv) improving cost efficiency. Each of the initiatives is set out in greater detail below.

In order to balance growth and profitability we will moderate deposit growth to the c.20% per annum range, with a concentration on relationship current accounts and variable accounts, while reducing the proportion of higher-cost term deposits. We will also manage our loan to deposit ratio to the 85-90% range, thereby balancing loan growth to optimise capital efficiency and profitability. The expansion of our physical store network and digital footprint to deliver an integrated customer experience will remain at the core of our model, although going forward we will manage the pace of store openings to lower the impact on costs.

Our lending will be built around low-risk mortgages, which are both cost-efficient and deliver a high ROE. In addition, we will use the C&I funding to broaden business services, creating opportunities for further SME and commercial trading business lending, whilst reducing the proportion of lower ROE commercial real estate loans. As the risk-reward trade off in consumer unsecured lending normalises, we will grow in unsecured lending and credit cards.

We will drive expansion in fee income through launching new value-added services, especially for SMEs. The initiatives we expect to launch include developing our digital offering, particularly in relation to online business accounts. We will partner with companies that can work with our customers to make running their business more convenient as all paperwork is cumbersome for SMEs, and we therefore believe there's a real opportunity to help them across a range of issues from tax to payroll.

Part of ensuring the model is in the right shape for the broader environment will mean reducing our cost base. We recognise that the pace of improving operating leverage has been too slow and requires back-office transformation to scale appropriately with our growth. We have therefore identified a programme of initiatives that will enable us to achieve a 55-60% cost:income ratio in the medium term. These cost actions will enable us to scale more efficiently with our pace of growth, with digitisation and automation improving efficiency across the span of our operations

Our application is with the PRA regarding AIRB migration for residential mortgages is ongoing and successful completion is expected, but not before 2021.

Guidance

	Medium term guidance
Deposit growth	c.20% per annum, c.2% share of the market by 2023
Store growth	c.8 new stores a year plus C&I funded store growth (2 stores in 2019)
Average deposits per store per month	>£4m
Loan to deposit ratio	85% – 90%
Cost of risk	15bps – 30bps through the cycle
Cost:income ratio	55%-60% by 2023
Capital	12% minimum CET1 ratio and leverage ratio >4%
ROE	Low double digit RoE by 2023

Summary
2018 has seen us pass another set of incredible milestones. We have expanded our reach further than ever before, enabling more people to save for their future, buy their own home or support the growth of their business with us.

We have been rewarded in these endeavours by a 140% increase in underlying profitability to £50.0m. Our statutory profitability increased by 117% to £40.6m

2019 will see us continue to focus relentlessly on creating FANS. We will also continue to invest in all areas of our business to ensure long-term market leadership, but this will be to drive a balance of growth, profit and cost efficiency.

Risk report

Our approach to risk management – putting our AMAZEING Culture at the heart of everything we do; investment in Growth Capability, enabling colleagues to be the most professional bankers; and focus on Control by doing the right things the right way – underpins delivery of our vision to create FANS! We believe a culture that truly focuses on creating FANS by exceeding customer expectations will deliver consistently great outcomes. Our unique culture aligns our people, processes and systems to the way we manage the risks inherent in our business activities. This ensures that our operations are carried out in a safe and compliant way, balanced with the superior customer service that enables us to create FANS.

All colleagues are responsible for managing risk as part of their day-to-day role. Customer-facing colleagues are at the forefront of risk management, along with their line managers. The Risk team oversees risk management activities. It 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.

The risk and control framework is designed to ensure that: all principal and emerging risks are identified, assessed, mitigated, monitored and reported; risk appetite is clearly articulated and policies aligned to it; appropriate processes, systems and controls are in place to support all colleagues in performance of their roles within risk appetite; and ongoing analysis of the environment in which we operate takes place to ensure we identify emerging risks and regulatory requirements.

Our unique, pervasive culture supports risk awareness by encouraging every colleague to think about the relationship between their role and our goal of creating FANS while growing safely and sustainably; and to be comfortable asking questions when they are not clear about policy to ensure their actions do not result in financial loss, reputational damage or customer detriment.

The Board is responsible for setting strategy, corporate objectives and risk appetite. The strategy and risk appetite considers the interests of our customers, shareholders and other stakeholders. On the advice of the Risk Oversight Committee, the Board approves the level of risk acceptable under each principal risk category, whilst providing oversight to ensure there is an adequate framework in place for reporting and managing those risks. The Board has delegated responsibility for reviewing the effectiveness of this framework to the Risk Oversight committee.

It is also responsible for maintaining an appropriate control environment to manage risk effectively, and for ensuring that the capital, liquidity, and other resources are adequate to achieve our objectives within our risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of internal controls to the Audit Committee. This committee monitors and considers the internal control environment, focusing on operational risks, internal and external audits and risk 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.

Our Chief Risk Officer ('CRO') leads the Risk function, which is independent from operational and commercial functions. She is responsible for ensuring that appropriate risk management processes, policies and controls are in place, that they're sufficiently robust, that key risks are identified, assessed, monitored and mitigated, and that we are operating within our risk appetite.

The Risk team provides specialist knowledge and support to colleagues, acting as a reference point for advisory queries, whilst also overseeing colleagues and the risk management and controls in place. It 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.

We've established our risk management policies to identify and analyse the risks we face, 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 our 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 approach to risk appetite is to set relevant quantitative and qualitative measures against which risk management performance can be reviewed for each of our principal risks. Risk appetite is set by the Board, based on the recommendation of the Risk Oversight Committee ("ROC"), and implemented by the Executive Risk Committee. Our risk appetite has been developed in line with our business plan, strategy and vision, and is underpinned by a culture in which all colleagues embed risk considerations in decision-making and are rewarded accordingly.

Risk Oversight Committee: Assists the Board in providing leadership, direction, and oversight with regard to risk governance and management, and also assists the Board in fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls when creating FANS. It works closely with the Audit Committee. It is chaired by a Non-Executive Director and meets at least quarterly. Its responsibilities include:

- Recommending to the Board our risk appetite;
- Regular review of risk exposures in relation to the risk appetite;
- Reviewing risk policies, and approving or recommending to the Board for approval; and
- Monitoring the effectiveness of risk management processes and procedures put in place by Management.

The Chief Executive, supported by the Executive Leadership Team, is responsible for executing the strategy and managing risk exposures and making decisions and recommendations to the Board, as appropriate, via the following risk committees:

(1) Credit Risk, Policy and Appetite Committee - The Committee is chaired by the CRO, meets monthly and is responsible for: oversight of credit risk policies; reviewing proposals on risk appetite; monitoring portfolio performance against risk appetite; along with the CFO, approving the impairment levels; and, approving all material aspects of IRB rating systems, including all material models.

(2) Credit Approval Committee - The Committee is an executive committee reporting to the ROC. It is chaired by the CRO or Director of Commercial Credit and is responsible for: sanctioning of higher value lending requests, and any exceptions to policy; monitoring overdue accounts; and granting and reviewing delegated lending authorities.

(3) Asset & Liability Committee - The Committee is chaired by the CFO, meets monthly and is responsible for: ensuring that an appropriate balance is maintained between funding and lending activities; ensuring that we meet internal liquidity targets as set out in the Liquidity Policy; analysis of Capital Market trends, considered along with actual and projected business performance to assess the adequacy of funding to meet the projected targets; agreement of pricing decisions to ensure visibility of trading and capital impact; and monitoring interest rate risk.

(4) Enterprise Risk Committee - The Committee is chaired by the CRO, meets monthly and is responsible for: reviewing enterprise, regulatory and compliance risk management issues with regard to risk appetite; oversight of the Enterprise Risk Management framework and performance of the KRIs; reviewing Assurance reports and findings; and, making recommendations for adjustment of policies to the Board.

The first line of defence is operational management, who manage risk by maintaining appropriate systems and controls that are operated and effective on a daily basis. The second line of defence comprises the risk management function, providing advice and oversight through specialist support teams and the risk committees. The third line of defence is Internal Audit, providing independent assurance through internal reviews and reports the results to the Audit Committee.

In January 2019, we announced that we had adjusted the risk weighting of some commercial lending assets. However, this does not impact the underlying credit quality of these assets. Asset quality remains strong overall, consistent with our prudent approach to lending, and reflected in our low cost of risk and NPL ratio.

We have now completed a review of the commercial loan book as at 31 December 2018, supported by one of the 'big four' accounting firm, and are satisfied that risk-weightings have been assigned appropriately.

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2018

	Note	**Year ended 31 December 2018 £'million**	Year ended 31 December 2017 £'million
Interest income	2	**444.4**	302.0
Interest expense	2	**(114.3)**	(61.0)
Net interest income		**330.1**	241.0
Fee and commission income		**37.6**	29.7
Net gains on sale of assets		**10.7**	3.7
Other income		**25.7**	19.4
Total income		**404.1**	293.8
General operating expenses		**(305.6)**	(232.9)
Depreciation and amortisation	7,8	**(45.1)**	(33.4)
Impairment of property, plant and equipment and intangible assets	7,8	**(4.8)**	(0.6)
Total operating expenses		**(355.5)**	(266.9)
Credit impairment charges[8]		**n/a**	(8.2)
Expected credit loss expense[8]		**(8.0)**	n/a
Profit before tax		**40.6**	18.7
Taxation	3	**(13.5)**	(7.9)
Profit for the year[9]		**27.1**	10.8
Other comprehensive expense for the period			
Items which will be reclassified subsequently to profit or loss where specific conditions are met:			
Movements in respect of investment securities held at available-for-sale (net of tax):			
- changes in fair value		**n/a**	2.7
- fair value gains transferred to the income statement on disposal		**n/a**	(3.7)
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax)			
- changes in fair value		**(2.4)**	n/a
- fair value gains transferred to the income statement on disposal		**(1.5)**	n/a
Total other comprehensive expense		**(3.9)**	(1.0)
Total comprehensive income for the year		**23.2**	9.8
Earnings per share			
Basic earnings per share	11	**29.1 pence**	12.8 pence
Diluted earnings per share	11	**28.2 pence**	12.6 pence

8. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. Under IAS 39 we recognised credit impairment charges, which have been replaced by an expected credit loss expense under IFRS 9.
9. A reconciliation between our profit for the period of £27.1m and our underlying profit before tax of £50.0m can be found in the Profit and Loss Account within our Trading Update.

Condensed consolidated balance sheet
As at 31 December 2018

	Note	31 December 2018 £'million	31 December 2017 £'million
Assets			
Cash and balances with the Bank of England		**2,286**	2,112
Loans and advances to banks		**186**	100
Loans and advances to customers	5	**14,235**	9,620
Available-for-sale investment securities[10]	6	**n/a**	361
Held to maturity investment securities[10]	6	**n/a**	3,554
Investment securities held at fair value through FVOCI	6	**674**	n/a
Investment securities held at amortised cost	6	**3,458**	n/a
Property, plant and equipment	7	**454**	328
Intangible assets	8	**197**	148
Prepayments and accrued income		**66**	52
Deferred tax asset	3	**41**	54
Other assets		**50**	26
Total assets		**21,647**	16,355
Liabilities			
Deposits from customers		**15,661**	11,669
Deposits from central banks[11]		**3,801**	3,321
Debt securities		**249**	-
Repurchase agreements		**344**	121
Other liabilities		**189**	147
Total liabilities		**20,244**	15,258
Equity			
Called up share capital	9	**-**	-
Share premium account	9	**1,605**	1,304
Retained earnings		**(209)**	(219)
Other reserves		**7**	12
Total equity		**1,403**	1,097
Total equity and liabilities		**21,647**	16,355

10. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. As part of the transition our investment securities are classified as held at amortised cost and as FVOCI, rather than under the previous categories of held to maturity and available-for-sale.
11. Deposits from central banks comprises solely of amounts drawn down under the Bank of England's Term Funding Scheme ('TFS').

Condensed consolidated statement of changes in equity

For the year ended 31 December 2018

£'million	Share capital	Share premium account	Retained earnings	Available for sale reserve [12]	FVOCI reserve[12]	Share option reserve	Total equity
Balance at 31 December 2017	**-**	**1,304**	**(219)**	**(4)**	**n/a**	**16**	**1,097**
IFRS 9 transition adjustments (net of tax)	**-**	**-**	**(17)**	**4**	**1**	**-**	**(12)**
Balance at 1 January 2018	**-**	**1,304**	**(236)**	**-**	**1**	**16**	**1,085**
Net profit for the year	**-**	**-**	**27**	**n/a**	**-**	**-**	**27**
Other comprehensive income, net of tax, relating to available for sale investments	**-**	**-**	**-**	**n/a**	**(4)**	**-**	**(4)**
Total comprehensive income	**-**	**-**	**27**	**n/a**	**(4)**	**-**	**23**
Shares issued	**-**	**304**	**-**	**n/a**	**-**	**-**	**304**
Cost of share issue	**-**	**(3)**	**-**	**n/a**	**-**	**-**	**(3)**
Net share option movement	**-**	**-**	**-**	**n/a**	**-**	**(6)**	**(6)**
Balance at 31 December 2018	**-**	**1,605**	**(209)**	**n/a**	**(3)**	**10**	**1,403**
Balance at 1 January 2017	-	1,028	(230)	(3)	n/a	10	805
Net profit for the year	-	-	11	-	n/a	-	11
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	(1)	n/a	-	(1)
Total comprehensive income	-	-	11	(1)	n/a	-	10
Shares issued	-	279	-	-	n/a	-	279
Cost of share issue	-	(3)	-	-	n/a	-	(3)
Net share option movements	-	-	-	-	n/a	6	6
Balance at 31 December 2017	-	1,304	(219)	(4)	n/a	16	1,097
Note	9	9					

12. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. Upon adoption of IFRS 9 the available for sale reserve was replaced by the fair value through other comprehensive income (FVOCI) reserve in accordance with the new requirements.

Condensed consolidated cash flow statement

For the year ended 31 December 2018

	Note	**31 December 2018 £'million**	31 December 2017 £'million
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax		**41**	19
Adjustments for:			
Impairment of property, plant and equipment and intangible assets		**5**	1
Depreciation and amortisation	7,8	**45**	33
Share option charge		**5**	3
Gain on sale of assets		**(11)**	(4)
Accrued interest on and amortisation of investment securities		**(7)**	(2)
Changes in operating assets		**(4,651)**	(3,751)
Changes in operating liabilities		**4,726**	5,994
Net cash inflows from operating activities		**153**	2,293
Cash flows from investing activities			
Sales of investment securities		**1,522**	309
Purchase of investment securities		**(1,740)**	(997)
Purchase of property, plant and equipment	7	**(150)**	(99)
Purchase and development of intangible assets	8	**(75)**	(70)
Net cash outflows from investing activities		**(443)**	(857)
Cash flows from financing activities			
Share issue	9	**304**	279
Cost of share issue	9	**(3)**	(3)
Debt security issue		**250**	-
Cost of debt security issue		**(1)**	-
Net cash inflows from financing activities		**550**	276
Net increase in cash and cash equivalents		**260**	1,712
Cash and cash equivalents at start of period		**2,212**	500
Cash and cash equivalents at end of period		**2,472**	2,212
Profit before tax includes:			
Interest received		**437**	296
Interest paid		**105**	61
Cash and cash equivalent comprise:			
Cash and balances with the Bank of England		**2,286**	2,112
Loans and advances to banks		**186**	100
		2,472	2,212

Notes

1. Basis of preparation and summarised accounting policies

Basis of preparation
The financial information set out in the announcement does not constitute the Group's statutory accounts for the years ended 31 December 2018 or 31 December 2017. The audit of the statutory accounts for the year ended 31 December 2018 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement.

Summarised accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2017 Annual Report & Accounts, other than in respect of new policies adopted during the year.

During the year we adopted the following standards across all Group companies:

IFRS 9 'Financial Instruments'
On 1 January 2018 we adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement'. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated; accordingly, all comparative period information is presented in accordance with our previous accounting policies.

IFRS 15 'Revenue from Contract with Customer'
On 1 January 2018, we adopted IFRS 15 'Revenue from Contracts with Customers' applying the modified retrospective method. The majority of our revenue is net interest income which is accounted for under IFRS 9, as such there are no material changes which have arisen from the adoption of IFRS 15.

2. Net Interest Income

Accounting policy (2018 disclosures)

We recognise interest income and expense for all interest-bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses except for purchased or originated credit impaired assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For non-performing loans, that is those that are credit impaired, interest income is calculated on the carrying amount of the loan net of credit impairment.

Interest income

	2018 £'million	2017 £'million
Cash and balances held with the Bank of England	**11.2**	3.3
Loans and advances to customers	**365.2**	241.8
Investment securities held to maturity and available for sale	**n/a**	56.9
Investment securities held at amortised cost	**57.7**	n/a
Investment securities held at FVOCI	**10.3**	n/a
Total interest income	**444.4**	302.0

Interest expense

	2018 £'million	2017 £'million
Deposits from customers	**75.1**	46.9
Deposits from central banks	**22.7**	5.4
Debt securities	**7.2**	-
Repurchase agreements	**0.7**	1.6
Other	**8.6**	7.1
Total interest expense	**114.3**	61.0

3. Taxation

Tax expense

	2018 £'million	2017 £'million
Current Tax:		
Current tax	**(2.8)**	(1.0)
Adjustment in respect of prior years	**(0.7)**	0.1
Total current tax expense	**(3.5)**	(0.9)
Deferred tax:		
Origination and reversal of temporary differences	**(9.8)**	(5.2)
Effect of changes in tax rates	**(0.7)**	(3.0)
Adjustment in respect of prior years	**0.5**	1.2
Total deferred tax expense	**(10.0)**	(7.0)
Total tax expense	**(13.5)**	(7.9)

Reconciliation of the total tax expense

The tax expense shown in the income statement differs from the tax expense that would apply if all accounting profits had been taxed at the UK corporation tax rate.
A reconciliation between the tax expense and the accounting profit multiplied by the UK corporation tax rate is as follows:

	2018 £'million	**Effective tax rate %**	2017 £'million	Effective tax rate %
Accounting Profit before tax	**40.6**		18.7	
Tax expense at statutory corporation tax rate of 19% (2017: 19.25%)	**(7.7)**	**19.0%**	(3.6)	19.25%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	**(2.6)**	**6.4%**	(2.6)	14.1%
Non-deductible expenses – investment property impairment	**(0.5)**	**1.2%**	-	-
Non-deductible expenses – other	**(0.6)**	**1.4%**	(0.5)	2.9%
Share-based payments	**(1.3)**	**3.1%**	0.6	(3.4%)
Adjustment in respect of prior years	**(0.2)**	**0.5%**	1.2	(6.5%)
Effect of changes in tax rates	**(0.6)**	**1.5%**	(3.0)	15.9%
Tax expense reported in the consolidated income statement	**(13.5)**	**33.2%**	(7.9)	42.2%

Share based payments
During the year the Metro Bank share price fell from £35.84 to £16.93. This had the impact of significantly reducing the deferred tax asset held for share options and in turn resulted in an associated deferred tax charge of £1.3 million. This charge contributes 3.1% to the 2018 effective tax rate.

Effective tax rate
The effective tax rate for the year is 33.2% (2017: 42.2%).
The effective tax rate for the year excluding the effect of changes in tax rates and prior year adjustments is 31.2% (2017: 32.8%).

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 balance sheet and changes recorded in the tax expense:

	Unused tax losses £'million	**Investment securities & impairments £'million**	**Share based payments £'million**	**Property, plant & equipment £'million**	**Intangible assets £'million**	**Total £'million**
2018						
Deferred tax assets	**53**	**7**	**1**	**-**	**-**	**61**
Deferred tax liabilities	**-**	**(2)**	**-**	**(11)**	**(7)**	**(20)**
Deferred tax assets (net)	**53**	**5**	**1**	**(11)**	**(7)**	**41**
At 31 December 2017	**57**	**-**	**11**	**(8)**	**(6)**	**54**
IFRS 9 transition adjustments	**-**	**4**	**-**	**-**	**-**	**4**
At 1 January 2018	**57**	**4**	**11**	**(8)**	**(6)**	**58**
Income statement	**(4)**	**(1)**	**(1)**	**(3)**	**(1)**	**(10)**
Other comprehensive income	**-**	**2**	**-**	**-**	**-**	**2**
Equity	**-**	**-**	**(9)**	**-**	**-**	**(9)**
At 31 December 2018	**53**	**5**	**1**	**(11)**	**(7)**	**41**
2017						
Deferred tax assets	57	1	11	-	-	69
Deferred tax liabilities	-	(1)	-	(8)	(6)	(15)
Deferred tax assets (net)	57	-	11	(8)	(6)	54
At 1 January 2017	61	(2)	6	(5)	(5)	55
Income statement	(3)	-	1	(3)	(1)	(6)
Other comprehensive income	(1)	2	-	-	-	1
Equity	-	-	4	-	-	4
At 31 December 2017	57	-	11	(8)	(6)	54

4. Financial instruments

Accounting policy (2018 disclosures)

Financial assets

We account for our financial assets under three measurement categories, as defined by IFRS 9:
• Measured at amortised cost
• Measured at fair value through other comprehensive income (‘FVOCI’)
• Measured at fair value through profit or loss (‘FVPL’)

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured:

(a) **Business model**: how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include, for example, past experience on how the cash flows for these assets were collected, how their performance is assessed, how related risks are managed and how their managers are compensated; and
(b) **SPPI test**: whether contractual cash flows are consistent with a basic lending arrangement; that is whether cash flows solely comprise payments of principal and interest (‘SPPI’). Examples of contract terms which may cause a financial asset not to “pass” the SPPI test include: interest being linked to the share price of the issuer, or some other index, rather than reflecting the time value of money; timing differences on interest reset points, such as an interest rate which resets monthly to a three month LIBOR rate; or a bond that is convertible into equity.

If assets pass the SPPI test, and are within a business model that holds to collect contractual cash flows, they are measured at amortised cost. If assets pass the SPPI test, and are within a business model that holds to collect contractual cash flows and for sale, they are measured at FVOCI. If an asset does not meet the criteria for amortised cost or FVOCI, it is measured at FVPL.

Under IFRS 9, assets will only move between categories if there is a significant change to the business model within which they are held; this is expected to be infrequent.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

Financial liabilities

All financial liabilities are classified and subsequently measured at amortised cost, except for those designated at fair value through profit or loss at initial recognition. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Our financial instruments primarily comprise customer deposits, loans and advances to customers, cash held at banks and investment securities, all of which arise as a result of our normal operations.

We do not enter into transactions for speculative purposes and there are no instruments held for trading. From time to time, we may use interest rate derivatives such as swaps to manage part of our interest rate risk.

The main financial risks arising from our financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk).

The financial instruments we hold are simple in nature and we do not consider that we have made any significant or material judgments relating to the classification of financial instruments under IFRS 9.

5. Loans and advances to customers

Accounting policy (2018 disclosures)

Loans and advances to customers are classified as held at amortised cost. All customer lending is held to collect cash flows, with no sales expected in the normal course of business. We aim to offer products with simple terms to customers, and as a result, all loans comprise solely payments of principal and interest. Loans are initially recognised when cash is advanced to the borrower at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method, which is detailed further in note 2. Interest on loans is included in the income statement and is reported as 'Interest income'. Expected credit losses ('ECL') are reported as a deduction from the carrying value of the loan. Changes to the ECL during the year are recognised in the income statement as "Expected credit loss expense".

	31 December 2018		
	Gross carrying amount £'million	**ECL allowance[13] £'million**	**Net carrying amount £'million**
Consumer lending	**288**	**(9)**	**279**
Retail mortgages	**9,625**	**(11)**	**9,614**
Commercial lending	**4,356**	**(14)**	**4,342**
Total loans and advances to customers	**14,269**	**(34)**	**14,235**

	31 December 2017		
	Gross carrying amount £'million	Allowance for impairment[13] £'million	Net carrying amount £'million
Consumer lending	217	(6)	211
Retail mortgages	6,231	(3)	6,228
Commercial lending	3,186	(5)	3,181
Total loans and advances to customers	9,634	(14)	9,620

13. On 1 January 2018 we adopted IFRS 9. Under IFRS 9 we assess impairment on a forward-looking ECL basis, compared to on an incurred loss basis under IAS 39.

An analysis of the gross loans and advances by product category is set out below

	31 December 2018 £'million	31 December 2017 £'million
Overdraft	**70**	86
Credit cards	**11**	9
Term loans	**207**	122
Total consumer lending	**288**	217
Retail mortgages	**9,625**	6,231
Total retail lending	**9,913**	6,448
Overdraft	**226**	139
Credit cards	**3**	2
Term loans	**3,828**	2,816
Asset and invoice finance	**299**	229
Total commercial lending	**4,356**	3,186
Gross loans and advances to customers	**14,269**	9,634
Amounts include:		
Repayable on demand or at short notice	**251**	160

6. Investment securities

Accounting policy (2018 disclosures)

Our investment securities may be categorised as amortised cost, FVOCI or FVPL. Currently all investment securities are non-complex, with cash flows comprising solely payments of principal and interest. We hold some securities to collect cash flows; other securities are held to collect cash flows, and to sell if the need arises (e.g., to manage and meet day to day liquidity needs). Therefore, we have a mixed business model and securities are classified as either amortised cost or FVOCI as appropriate. We do not categorise any investment securities as FVPL.

Investment securities held at amortised cost

Investment securities held at amortised cost consist entirely of debt instruments. They are accounted for using the effective interest method, less any impairment losses.

Investment securities held at FVOCI

Investment securities held at FVOCI consist entirely of debt instruments. Investment securities held at FVOCI are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the investment security is derecognised. Interest is calculated using the effective interest method.

Investment securities held at fair value through other comprehensive income (FVOCI)

	Level 1 £'million	**Level 2 £'million**	**Total £'million**
As at 31 December 2018 (financial instruments held at FVOCI)	**607**	**67**	**674**
As at 31 December 2017 (available for sale financial instruments)	290	71	361

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
Investment securities 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).

Investment securities held at amortised cost
At 31 December 2018, financial investments classified at amortised cost (31 December 2017: held to maturity) were as follows:

	Carrying amount £'million	Fair value £'million
As at 31 December 2018 (held at amortised cost)	**3,458**	**3,429**
As at 31 December 2017 (held to maturity)	3,554	3,590

Reclassifications between categories

On 17 February 2017 £33.2 million, 18 April 2017 £60.4 million, 21 November 2017 £95.0 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 2017 were as follows:

	Carrying amount £'million	Fair value £'million
At 31 December 2017	314	324

A £1.2 million fair value gain was recognised with respect to the reclassified assets in 2017; had these assets not been reclassified, an 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.

7. Property, plant and equipment

	Investment property £'million	**Leasehold improvements £'million**	**Freehold land & buildings £'million**	**Fixtures fittings & equipment £'million**	**IT hardware £'million**	**Total £'million**
Cost						
1 January 2018	**11**	**198**	**136**	**26**	**35**	**406**
Additions	**-**	**80**	**59**	**7**	**4**	**150**
Transfers	**(1)**	**(3)**	**4**	**-**	**-**	**-**
31 December 2018	**10**	**275**	**199**	**33**	**39**	**556**
Accumulated depreciation						
1 January 2018	**-**	**29**	**6**	**14**	**29**	**78**
Impairments	**3**	**1**	**-**	**-**	**-**	**4**
Charge of the year	**-**	**10**	**2**	**4**	**4**	**20**
Transfers	**-**	**(1)**	**1**	**-**	**-**	**-**
31 December 2018	**3**	**39**	**9**	**18**	**33**	**102**
Net book value	**7**	**236**	**190**	**15**	**6**	**454**

Investment property consists of shops and offices which are located within the same buildings as some of our stores, where we have acquired the freehold interest. Investment property is held to earn rental income and for capital appreciation. At 31 December 2018 our investment property had a fair value of £7 million (31 December 2017: £11 million).

	Investment property £'million	Leasehold improvements £'million	Freehold land & buildings £'million	Fixtures fittings & equipment £'million	IT hardware £'million	Total £'million
Cost						
1 January 2017	-	170	86	20	31	307
Additions	3	36	50	6	4	99
Transfers	8	(8)	-	-	-	-
31 December 2017	11	198	136	26	35	406
Accumulated depreciation						
1 January 2017	-	22	3	11	24	60
Charge of the year	-	8	2	3	5	18
Transfers	-	(1)	1	-	-	-
31 December 2017	-	29	6	14	29	79
Net book value	11	169	130	12	6	328

8. Intangible assets

	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2018	**4**	**1**	**174**	**179**
Additions	**-**	**-**	**75**	**75**
31 December 2018	**4**	**1**	**249**	**254**
Amortisation				
1 January 2018	**-**	**1**	**30**	**31**
Impairments	**-**	**-**	**1**	**1**
Charge for the period	**-**	**-**	**25**	**25**
31 December 2018	**-**	**1**	**56**	**57**
Net book value	**4**	**-**	**193**	**197**

	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2017	4	1	102	107
Additions	-	-	70	70
Reclassification	-	-	2	2
31 December 2017	4	1	174	179
Amortisation				
1 January 2017	-	1	14	15
Charge for the period	-	-	15	15
Reclassification	-	-	1	1
31 December 2017	-	1	30	31
Net book value	4	-	144	148

The goodwill held on our balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate CGU; of the total balance of £4 million (2017: £4 million), 100% has been allocated to SME Invoice Finance Limited.

The recoverable amount of SME Invoice Finance Limited has been based on a value-in-use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a seven-year period and a discount rate of 7.9%. The long-term growth rate is consistent with external sources of information reviewed by management. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of SME Invoice Finance Limited to fall below the balance sheet carrying value. Seven years was used as the basis for discounted cash flow calculation to align with the 2018-2024 plan, prepared by management and approved by the Board, and used in decision-making. The plan is reviewed and updated annually.

9. Called-up share capital

We have a single class of shares. As at 31 December 2018 we had 97.4 million ordinary shares of 0.0001p (31 December 2017: 88.5 million) authorised and in issue.

In July 2018, we issued 8.9 million ordinary shares of 0.0001p each, for consideration of £303 million. Related transaction costs of £3 million have been deducted from equity during the year.

Additionally, during the year we issued 0.1 million ordinary shares which relate to the exercise of previously awarded share options. These options contributed £1 million to share premium

Called-up ordinary share capital (issued and fully paid)

	31 December 2018 £'million	31 December 2017 £'million
Called-up ordinary share capital, issued and fully paid		
1 January	**-**	-
Issued	**-**	-
31 December	**-**	-

Share premium

	31 December 2018 £'million	31 December 2017 £'million
Share premium account		
1 January	**1,304**	1,028
Issued	**304**	279
Cost of shares issued	**(3)**	(3)
31 December	**1,605**	1,304

10. Credit risk

Accounting policy (2018 disclosures)

We assess on a forward-looking basis the expected credit losses ('ECL') associated with the assets carried at amortised cost and FVOCI and recognise a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. Risk of default and expected credit losses must incorporate forward looking and macroeconomic information.

Loans and advances

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages. Expected credit losses are calculated for drawn loans, and for committed lending.

The same broad calculation approach is applied for each core model. Expected credit losses are calculated by multiplying three main components, being the probability of default, loss given default and the exposure at default, discounted at the original effective interest rate.

Key model inputs and judgements include:

- Consideration of when a significant increase in credit risk occurs
- Probability of default ('PD'), loss given default, and exposure at default
- Macroeconomic scenarios to be applied

Significant increase in credit risk

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach:

Stage	Description	ECL recognised
Stage 1	Financial assets that have had no significant increase in credit risk since initial recognition or that have low credit risk at the reporting date.	12-month expected credit losses Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability weighted macro-economic scenarios.
Stage 2	Financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment.	Lifetime expected credit losses Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability weighted macro-economic scenarios.
Stage 3	Financial assets that are credit impaired at the reporting date. A financial asset is credit impaired when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due, or where the borrower is considered unlikely to pay.	Lifetime expected credit losses Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability weighted macro-economic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired (POCI) asset	Financial assets that have been purchased and had objective evidence of being "non-performing" or "credit impaired" at the point of purchase.	Lifetime expected credit losses At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognised as a loss allowance.

A significant increase in credit risk may be identified in a number of ways:

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The selection of the threshold is such that the PD threshold of the observed median lifetime PD at origination is 3 times this median.
- Qualitative criteria –Instruments that are 30 days past due or more or instruments classified on the watchlist as higher risk are allocated to stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realization of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to:

• A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with; or
• A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as "non-performing" or "credit impaired". Instead, the combined effect of several events may cause financial assets to become credit impaired.

A probation period is implemented before transferring a financial instrument to a lower stage (i.e., from stage 3 to stage 2, or from stage 2 to stage 1). Specifically, in order to move an account from stage 3 to stage 2, we apply a backstop such that the instrument should meet the stage 2 criteria for 3 consecutive months. The same logic is applied when transferring an account from stage 2 to stage 1.

Probability of default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A probability of default is calculated for all loans based on historic data and incorporates:
• Credit quality scores
• Lifecycle trends depending on a loan's vintage
• Factors indicating the quality of the vintage
• Characteristics of the current and future economic environment

Loss given default

The loss given default ('LGD') represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD models – one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:
• Value of collateral on secured portfolios – a key driver of the expected recovery in the event of default
• Expected haircut applied to the collateral value to reflect a forced sale discount
• Price index forecasts applied to project collateral values into the future
• Stress factors based on macro-economic scenarios

Exposure at default

This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:
• Interest should be accrued
• Repayments may be received on mortgages
• For a revolving product, further drawings may be taken between the current point in time and the point of default
• Estimations of these factors will be incorporated into our estimate of exposure at default.

PD, LGD and exposure at default are calculated and applied at an individual account level for secured lending.

For unsecured lending, PD and exposure at default are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

Macroeconomic scenarios

The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material "non-linearities" (i.e. where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

In the normal course of business, we use three scenarios. These represent a "most likely outcome", (the "Baseline" scenario) and two, less likely, "Outer" scenarios on either side of the Baseline scenario, referred to as an "Upside" and a "Downside" scenario respectively. The baseline scenario captures the

most likely economic future; the downside scenario presents particular adverse economic conditions; and the upside scenario presents more favourable economic conditions.

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied:
• UK interest rates
• UK unemployment rates
• UK house price index ('HPI') changes, year on year
• UK gross domestic product ('GDP') changes, year on year

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index collateral which has a direct impact on LGDs. Other metrics are considered to have a direct impact on PDs and were selected following a search and data calibration exercise of possible drivers. A list of around 15 potential drivers were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. The list included variables which impact economic output, interest rates, inflation, stock prices, borrower income and the UK housing market. An algorithm was then used to choose the subset of drivers which had the greatest significance and predictive fit to Metro Bank data.

Each scenario was determined by flexing the baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A large number of possible future paths is simulated. The downside scenario has been set to be worse than 90% of possible future outcomes; the upside scenario has been set to be better than 90% of possible future outcomes. These assumptions are considered sufficient to capture any material nonlinearities.

A simulation process was designed to determine the weighting to apply to each scenario based on the severity of each scenario and the range of possible scenarios for which that scenario was representative.

We recognise that applying the above three scenarios will not always be sufficient to determine an appropriate ECL in all economic environments. A fourth scenario has been included in the 31 December 2018 ECL for the impact of a "Hard Brexit", adding to the result derived using the three scenarios detailed above. This scenario reflects management's judgement that the three scenarios above do not fully reflect the high degree of uncertainty in estimating the current uncertainty in the UK economy ahead of the UK's departure from the European Union in 2019 ('Brexit'). The Hard Brexit scenario is more severe than the current downside scenario and is considered to be in keeping with some of the more severe outcomes published by UK government departments and industry bodies. The Hard Brexit scenario is used as an add-on to the three "business as usual" scenarios.

The weightings applied to each scenario at 31 December 2018 are:
• Baseline – 37%
• Upside and downside – 28% each
• Hard Brexit – 7%

This weighting scheme is deemed as being appropriate for the computation of unbiased ECL.

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2018 are as follows:

	2019	2020	2021	2022
Interest rates (%)	Base: 2.2% Upside: 2.1% Downside: 0.9% Brexit: 0.5%	Base: 2.6% Upside: 3.1% Downside: 1.2% Brexit: 0.8%	Base: 2.8% Upside: 3.1% Downside: 1.4% Brexit: 0.9%	Base: 3.2% Upside: 3.5% Downside: 1.6% Brexit: 1.3%
UK unemployment (%)	Base: 4.6% Upside: 3.3% Downside: 6.2% Brexit: 6.7%	Base: 4.8% Upside: 3.4% Downside: 7.2% Brexit: 8.4%	Base: 5.0% Upside: 3.6% Downside: 7.3% Brexit: 8.5%	Base: 5.0% Upside: 3.0% Downside: 6.9% Brexit: 8.1%
UK house price index - % change year-on-year	Base: 1.9% Upside: 7.6% Downside: (5.3)% Brexit: (8.5)%	Base: 0.5% Upside: 4.5% Downside: (6.4) % Brexit: (11.1)%	Base: 1.2% Upside: 1.9% Downside: 0.0% Brexit: (1.7)%	Base: 1.9% Upside: 0.9% Downside: 3.7% Brexit: (4.3)%
UK GDP - % change year-on-year	Base: 1.6% Upside: 4.0% Downside: (1.9)% Brexit: (3.6)%	Base: 1.4% Upside: 2.1% Downside: 0.8% Brexit: (0.2)%	Base: 1.9% Upside: 1.9% Downside: 2.6% Brexit: 2.6%	Base: 1.8% Upside: 1.6% Downside: 2.0% Brexit: 2.3%

The assumptions used for the ECL estimate as at 1 January 2018 are as follows:

	2018	2019	2020	2021	2022
Interest rates (%)	Base: 1.7% Upside: 1.8% Downside: 1.5% Brexit: n/a	Base: 2.3% Upside: 2.6% Downside: 1.0% Brexit: n/a	Base: 2.7% Upside: 2.9% Downside: 1.0% Brexit: n/a	Base: 2.6% Upside: 3.0% Downside: 1.3% Brexit: n/a	Base: 3.0% Upside: 3.3% Downside: 1.8% Brexit: n/a
UK unemployment (%)	Base: 4.6% Upside: 4.0% Downside: (5.7)% Brexit: n/a	Base: 4.8% Upside: 3.5% Downside: 7.1% Brexit: n/a	Base: 5.0% Upside: 3.6% Downside: 7.5% Brexit: n/a	Base: 5.1% Upside: 3.9% Downside 7.3% Brexit: n/a	Base: 5.1% Upside: 4.1% Downside: 6.9% Brexit: n/a
UK house price index - % change year-on-year	Base: 2.9% Upside: 5.8% Downside: (0.9)% Brexit: n/a	Base: 1.3% Upside: 7.2% Downside: (7.3)% Brexit: n/a	Base: 0.9% Upside: 3.2% Downside: (2.7)% Brexit: n/a	Base: 1.8% Upside: 1.6% Downside: 1.8% Brexit: n/a	Base: 2.4% Upside: 1.0% Downside: 4.3% Brexit: n/a
UK GDP - % change year-on-year	Base: 1.6% Upside: 3.4% Downside: (1.1)% Brexit: n/a	Base: 1.6% Upside: 3.2% Downside: (0.8)% Brexit: n/a	Base: 1.8% Upside: 2.1% Downside: 1.9% Brexit: n/a	Base: 1.9% Upside: 1.7% Downside: 2.5% Brexit: n/a	Base: 1.8% Upside: 1.6% Downside: 2.0% Brexit: n/a

Following the initial four year projection period, the upside and downside scenarios converge to the baseline scenario. The rate of convergence varies based on the macroeconomic factor, but at a minimum, convergence takes place three years from the initial four year projection period.

We note that the scenarios applied comprise our best estimate of economic impacts on the ECL, and the actual outcome may be significantly different.

Investment securities and other financial assets

Impairment provisions have been calculated based on our best estimate of expected credit losses on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. Impairment provisions are not material on these financial assets.

Retail mortgage lending

The table below stratifies credit exposures from retail mortgages by ranges of debt-to-value ('DTV') ratio. The average DTV of the retail mortgage loan book is 61% (2017: 60%):

	31-Dec-18 £'million			31-Dec-17 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
DTV ratio						
Less than 50%	**2,124**	**458**	**2,582**	1,404	316	1,720
51–60%	**1,195**	**493**	**1,688**	771	342	1,113
61–70%	**1,374**	**553**	**1,927**	1,010	415	1,425
71–80%	**1,362**	**596**	**1,958**	716	420	1,136
81–90%	**1,205**	**129**	**1,334**	538	130	668
91–100%	**80**	**33**	**113**	80	35	115
More than 100%	**11**	**12**	**23**	39	15	54
Total	**7,351**	**2,274**	**9,625**	4,558	1,673	6,231

A geographic analysis of the location of retail mortgage collateral is set out below:

	31-Dec-18 £'million			31-Dec-17 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Region						
Greater London	**3,034**	**1,231**	**4,265**	1,989	911	2,900
South east	**1,797**	**383**	**2,180**	1,115	280	1,395
South west	**616**	**122**	**738**	342	82	424
East of England	**492**	**91**	**583**	289	66	355
North west	**405**	**138**	**543**	236	105	341
West Midlands	**293**	**81**	**374**	164	51	215
East Midlands	**241**	**57**	**298**	138	39	177
Yorkshire and the Humber	**207**	**73**	**280**	131	57	188
Wales	**141**	**36**	**177**	81	24	105
North east	**83**	**31**	**114**	51	27	78
Scotland	**38**	**4**	**42**	18	3	21
Northern Ireland	**4**	**27**	**31**	4	28	32
Total	**7,351**	**2,274**	**9,625**	4,558	1,673	6,231

An analysis of our retail mortgage book by repayment type is set out below:

	31-Dec-18 £'million			31-Dec-17 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Repayment						
Interest	**2,242**	**2,166**	**4,408**	1,413	1,597	3,010
Capital and interest	**5,109**	**108**	**5,217**	3,145	76	3,221
Total	**7,351**	**2,274**	**9,625**	4,558	1,673	6,231

Commercial lending

The table below stratifies credit exposures from commercial term loans by ranges of DTV. The average DTV of the commercial term loan book is 59% (2017: 58%):

	31 December 2018 £'million	31 December 2017 £'million
DTV ratio		
Less than 50%	**1,277**	1,011
51–60%	**936**	610
61–70%	**791**	495
71–80%	**249**	209
81–90%	**100**	116
91–100%	**51**	32
More than 100%	**424**	343
Total commercial term lending	**3,828**	2,816

A geographic analysis by location of customers who hold commercial term loans is set out below:

	31 December 2018 £'million	31 December 2017 £'million
Region		
Greater London	**2,465**	1,914
South east	**677**	457
South west	**229**	167
East of England	**151**	93
North west	**145**	96
West Midlands	**50**	21
East Midlands	**33**	16
Wales	**29**	22
Yorkshire and the Humber	**26**	16
North east	**16**	8
Scotland	**4**	4
Northern Ireland	**3**	2
Total commercial term lending	**3,828**	2,816

An analysis of our commercial term loan book by repayment type is set out below:

	31 December 2018 £'million	31 December 2017 £'million
Repayment		
Interest	**1,592**	1,111
Capital and interest	**2,236**	1,705
Total commercial term lending	**3,828**	2,816

A sector analysis of our commercial term loan book is set out below:

	31 December 2018 £'million	31 December 2017 £'million
Industry sector		
Real estate (rent, buy and sell)	**2,547**	1,704
Legal, accountancy and consultancy	**384**	304
Hospitality	**235**	185
Health and social work	**217**	214
Retail	**99**	84
Real estate (management of)	**72**	104
Construction	**60**	69
Real estate (development)	**52**	26
Recreation, cultural and sport	**19**	18
Education	**15**	4
Investment and unit trusts	**1**	21
Other	**127**	83
Total commercial term lending	**3,828**	2,816

The remainder of commercial lending consists of overdraft and credit cards which are generally unsecured alongside our asset and invoice finance lending.

Credit risk exposure
We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. We consider that the arrears status of customer lending is an appropriate method of assessing the credit quality of that lending. The stage of customer lending is also influenced by other metrics as described in our accounting policy above. The tables below set out the distribution of customer lending by credit quality and stage allocation.

The ECL on our investment securities and other financial assets is immaterial and therefore no analysis has been provided.

Retail mortgages

	31-Dec-18 £'million			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**
Up to date	**9,242**	**275**	**19**	**2**
1 to 29 days past due	**3**	**14**	**4**	**1**
30 to 89 days past due	**-**	**47**	**7**	**1**
90+ days past due	**-**	**-**	**9**	**1**
Gross carrying amount	**9,245**	**336**	**39**	**5**

Consumer lending

	31-Dec-18 £'million			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**
Up to date	**272**	**-**	**-**	**-**
1 to 29 days past due	**3**	**3**	**-**	**-**
30 to 89 days past due	**-**	**5**	**-**	**-**
90+ days past due	**-**	**-**	**5**	**-**
Gross carrying amount	**275**	**8**	**5**	**-**

Commercial lending

	31-Dec-18 £'million			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**POCI Lifetime ECL**
Up to date	4,213	6	2	-
1 to 29 days past due	52	44	-	-
30 to 89 days past due	-	27	5	-
90+ days past due	-	-	7	-
Gross carrying amount	**4,265**	**77**	**14**	**-**

Loss allowance

The following tables explain the changes in both the gross carrying amount and loss allowances of our loans and advances during the period. Significant changes in the gross carrying amount which contributed to changes in the loss allowance are explained below. Other movements consists of changes to model assumptions and forward looking information.

Retail mortgages

	Gross carrying amount				
£'million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2018	6,065	129	33	4	6,231
Transfers to/(from) stage 1	60	(52)	(8)	-	-
Transfers to/(from) stage 2	(222)	223	(1)	-	-
Transfers to/(from) stage 3	(16)	(7)	23	-	-
Net remeasurement due to transfer	-	-	-	-	-
New lending	3,933	76	3	2	4,014
Repayments, additional drawdowns and interest accrued	(151)	(7)	(1)	(1)	(160)
Derecognitions	(424)	(26)	(10)	-	(460)
Changes to model assumptions	-	-	-	-	-
Balance at 31 December 2018	**9,245**	**336**	**39**	**5**	**9,625**

	Loss allowance				
£'million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2018	(1)	(3)	(5)	(1)	(10)
Transfers to/(from) stage 1	(1)	1	-	-	-
Transfers to/(from) stage 2	1	(1)	-	-	-
Transfers to/(from) stage 3	-	1	(1)	-	-
Net remeasurement due to transfer	1	(2)	(1)	-	(2)
New lending	(1)	(1)	-	-	(2)
Repayments, additional drawdowns and interest accrued	-	-	-	-	-
Derecognitions	1	-	1	-	2
Changes to model assumptions	-	-	2	(1)	1
Balance at 31 December 2018	**-**	**(5)**	**(4)**	**(2)**	**(11)**

£'million	Stage 1	Net carrying amount Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**6,064**	**126**	**28**	**3**	**6,221**
Transfers to/(from) stage 1	**59**	**(51)**	**(8)**	**-**	**-**
Transfers to/(from) stage 2	**(221)**	**222**	**(1)**	**-**	**-**
Transfers to/(from) stage 3	**(16)**	**(6)**	**22**	**-**	**-**
Net remeasurement due to transfer	**1**	**(2)**	**(1)**	**-**	**(2)**
New lending	**3,932**	**75**	**3**	**2**	**4,012**
Repayments, additional drawdowns and interest accrued	**(151)**	**(7)**	**(1)**	**(1)**	**(160)**
Derecognitions	**(423)**	**(26)**	**(9)**	**-**	**(458)**
Changes to model assumptions	**-**	**-**	**2**	**(1)**	**1**
Balance at 31 December 2018	**9,245**	**331**	**35**	**3**	**9,614**

Consumer lending

£'million	Stage 1	Gross carrying amount Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**191**	**20**	**6**	**-**	**217**
Transfers to/(from) stage 1	**2**	**(2)**	**-**	**-**	**-**
Transfers to/(from) stage 2	**(3)**	**3**	**-**	**-**	**-**
Transfers to/(from) stage 3	**(1)**	**(1)**	**2**	**-**	**-**
Net remeasurement due to transfer	**-**	**-**	**-**	**-**	**-**
New lending	**160**	**2**	**1**	**-**	**163**
Repayments, additional drawdowns and interest accrued	**(27)**	**(1)**	**-**	**-**	**(28)**
Derecognitions	**(47)**	**(13)**	**(4)**	**-**	**(64)**
Changes to model assumptions	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**275**	**8**	**5**	**-**	**288**

£'million	Stage 1	Loss allowance Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**(1)**	**(11)**	**(5)**	**-**	**(17)**
Transfers to/(from) stage 1	**-**	**-**	**-**	**-**	**-**
Transfers to/(from) stage 2	**-**	**-**	**-**	**-**	**-**
Transfers to/(from) stage 3	**-**	**-**	**-**	**-**	**-**
Net remeasurement due to transfer	**-**	**(1)**	**(1)**	**-**	**(2)**
New lending	**(2)**	**(1)**	**-**	**-**	**(3)**
Repayments, additional drawdowns and interest accrued	**-**	**-**	**-**	**-**	**-**
Derecognitions	**-**	**10**	**3**	**-**	**13**
Changes to model assumptions	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**(3)**	**(3)**	**(3)**	**-**	**(9)**

£'million	Stage 1	Stage 2	Net carrying amount Stage 3	POCI	Total
Balance at 1 January 2018	**190**	**9**	**1**	**-**	**200**
Transfers to/(from) stage 1	**2**	**(2)**	**-**	**-**	**-**
Transfers to/(from) stage 2	**(3)**	**3**	**-**	**-**	**-**
Transfers to/(from) stage 3	**(1)**	**(1)**	**2**	**-**	**-**
Net remeasurement due to transfer	**-**	**(1)**	**(1)**	**-**	**(2)**
New lending	**158**	**1**	**1**	**-**	**160**
Repayments, additional drawdowns and interest accrued	**(27)**	**(1)**	**-**	**-**	**(28)**
Derecognitions	**(47)**	**(3)**	**(1)**	**-**	**(51)**
Changes to model assumptions	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**272**	**5**	**2**	**-**	**279**

Commercial lending

£'million	Stage 1	Stage 2	Gross carrying amount Stage 3	POCI	Total
Balance at 1 January 2018	**3,074**	**95**	**16**	**1**	**3,186**
Transfers to/(from) stage 1	**50**	**(50)**	**-**	**-**	**-**
Transfers to/(from) stage 2	**(53)**	**53**	**-**	**-**	**-**
Transfers to/(from) stage 3	**(6)**	**(4)**	**10**	**-**	**-**
Net remeasurement due to transfer	**-**	**-**	**-**	**-**	**-**
New lending	**1,654**	**10**	**1**	**-**	**1,665**
Repayments, additional drawdowns and interest accrued	**(120)**	**(7)**	**(4)**	**-**	**(131)**
Derecognitions	**(334)**	**(20)**	**(9)**	**(1)**	**(364)**
Changes to model assumptions	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2018	**4,265**	**77**	**14**	**-**	**4,356**

£'million	Stage 1	Stage 2	Loss allowance Stage 3	POCI	Total
Balance at 1 January 2018	**(5)**	**(1)**	**(3)**	**-**	**(9)**
Transfers to/(from) stage 1	**-**	**-**	**-**	**-**	**-**
Transfers to/(from) stage 2	**-**	**-**	**-**	**-**	**-**
Transfers to/(from) stage 3	**-**	**-**	**-**	**-**	**-**
Net remeasurement due to transfer	**-**	**(2)**	**(2)**	**-**	**(4)**
New lending	**(3)**	**-**	**-**	**-**	**(3)**
Repayments, additional drawdowns and interest accrued	**-**	**-**	**-**	**-**	**-**
Derecognitions	**-**	**-**	**1**	**-**	**1**
Changes to model assumptions	**2**	**-**	**(1)**	**-**	**1**
Balance at 31 December 2018	**(6)**	**(3)**	**(5)**	**-**	**(14)**

£'million	Stage 1	Stage 2	Net carrying amount Stage 3	POCI	Total
Balance at 1 January 2018	**3,069**	**94**	**13**	**1**	**3,177**
Transfers to/(from) stage 1	**50**	**(50)**	**-**	**-**	**-**
Transfers to/(from) stage 2	**(53)**	**53**	**-**	**-**	**-**
Transfers to/(from) stage 3	**(6)**	**(4)**	**10**	**-**	**-**
Net remeasurement due to transfer	**-**	**(2)**	**(2)**	**-**	**(4)**
New lending	**1,651**	**10**	**1**	**-**	**1,662**
Repayments, additional drawdowns and interest accrued	**(120)**	**(7)**	**(4)**	**-**	**(131)**
Derecognitions	**(334)**	**(20)**	**(8)**	**(1)**	**(363)**
Changes to model assumptions	**2**	**-**	**(1)**	**-**	**1**
Balance at 31 December 2018	**4,259**	**74**	**9**	**-**	**4,342**

Non-performing loans

Non-performing loans are loans which have more than three instalments unpaid (90+ days past due). All non-performing loans are included within stage 3 within the credit risk exposure and loss allowance tables.

	31 December 2018		31 December 2017	
	Non-performing loans £'million	**Non-performing loans ratio[14]**	Non-performing loans £'million	Non-performing loans ratio[14]
Retail mortgages	**9**	**0.09%**	9	0.15%
Consumer lending	**5**	**1.74%**	6	2.78%
Commercial	**7**	**0.16%**	11	0.35%
Total	**21**	**0.15%**	26	0.27%

14. 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.

Cost of risk[15]

	2018	2017
Retail mortgages	**0.01%**	0.03%
Consumer lending	**1.54%**	2.03%
Commercial	**0.10%**	0.13%
Total	**0.07%**	0.11%

15. Cost of risk is credit impairment charges expressed as percentage of gross lending.

2017 Credit risk disclosures

The disclosures below were included in our 2017 financial statements, however have no directly comparable equivalent this year owing to the adoption of IFRS 9. These disclosures have therefore been shown separately rather than adjacent to the 2018 tables.

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.

31 December 2017	Loans and advances to customers £'million	Loans and advances to banks £'million
Neither past due nor impaired	9,486	100
Past due but not impaired	109	–
Individually impaired	12	–
Portfolio impaired	27	–
Total	9,634	100
Less: allowance for impairment	(14)	–
Total	9,620	100
Individually impaired	(3)	–
Collectively impaired[16]	(11)	–
Total allowance for impairment	(14)	–

16. 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.

	31-Dec 2017 £'million
Allowance for impairment at 1 January	(7)
Write-offs	1
Increase in impairment allowance	(8)
Allowance for impairment at 31 December	(14)

Past due but not impaired

The gross amounts of loans and advances to customers that were past due but not impaired was as follows:

	Retail mortgages £'million	Commercial £'million	Consumer lending £'million	Total £'million
Past due less than 7 days	27	37	1	65
Past due 7–30 days	19	19	1	39
Past due 31–60 days	2	–	1	3
Past due 61–90 days	1	–	1	2
Over 90 days	–	–	–	–
Total	49	56	4	109

11. Earnings per share

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

	2018	2017
Earnings attributable to ordinary equity holders of Metro Bank (£'million)	**27.1**	10.8
Weighted average number of ordinary shares in issue – basic ('000)	**92,964**	84,412
Basic earnings per share (pence)	**29.1**	12.8

Diluted earnings per share has been calculated by dividing the earnings attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. For the year to 31 December 2018 1.7 million share options were anti-dilutive and excluded from the weighted average number of shares (year to 31 December 2017: nil).

	2018	2017
Earnings attributable to ordinary equity holders of Metro Bank (£'million)	**27.1**	10.8
Weighted average number of ordinary shares in issue – diluted ('000)	**95,853**	85,927
Diluted earnings per share (pence)	**28.2**	12.6

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 earnings per share.

12. Fair value of financial instruments

£'million	Carrying value	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total fair value
31 December 2018					
Assets					
Loans and advances to banks	**186**	**-**	**-**	**186**	**186**
Loan and advances to customers	**14,235**	**-**	**-**	**14,857**	**14,857**
Investment securities	**4,132**	**1,212**	**2,891**	**-**	**4,103**
Liabilities					
Deposits from customers	**15,661**	**-**	**-**	**15,605**	**15,605**
Deposits from central banks	**3,801**	**-**	**-**	**3,801**	**3,801**
Debt securities	**249**	**219**	**-**	**-**	**219**
Repurchase agreements	**344**	**-**	**-**	**344**	**344**
31 December 2017					
Assets					
Loans and advances to banks	100	-	-	100	100
Loan and advances to customers	9,620	-	-	10,084	10,084
Investment securities	3,915	922	3,029	-	3,951
Liabilities					
Deposits from customers	11,669	-	-	11,650	11,650
Deposits from central banks	3,321	-	-	3,321	3,321
Repurchase agreements	121	-	-	122	122

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

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

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.

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.

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).

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.

Debt securities
Fair values are determined using the quoted market price at the balance sheet date.

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.

13. Leases

Commitments under leases
We lease various offices and stores under non-cancellable operating lease arrangements. The total operating lease expenditure recognised in the statement of comprehensive income during the year was £25.5 million (2017: £19.6 million). The leases have various terms, escalation, renewal and rights. At the balance sheet date, future minimum payments under operating leases relating to land and buildings, inclusive of irrecoverable VAT, were as follows:

	31 December 2018 £'million	31 December 2017 £'million
Due		
Within one year	**31**	20
Due in one to five years	**133**	81
Due in more than five years	**495**	318
Total	**659**	419

Future income due under non-cancellable operating leases

We lease out surplus space in some of our properties. The balances reflect the cash payments expected over the remaining non-cancellable term of each lease, exclusive of any VAT. Of the total below, £11.3 million (2017: £12.0 million) relates to sub-letting of leased stores. During the year, £1.0 million (2017: £1.4 million) was recognised as rental income in the statement of comprehensive income.

	31 December 2018 £'million	31 December 2017 £'million
Receivable		
Within one year	**1**	1
Due in one to five years	**4**	4
Due in more than five years	**9**	10
Total	**14**	15

On 1 January 2019 we adopted IFRS 16 'Leases' which will significantly change the way we account for leases. Further details on the impact of the adoption of IFRS 16 can be found below.

IFRS 16 'Leases'
On 1 January 2019 we adopted IFRS 16. IFRS 16 provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. IFRS 16 replaces IAS 17 'Leases'. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use ('RoU') assets and lease liabilities for all applicable leases, with operating leases being brought onto the face of the balance sheet.

We have adopted IFRS 16 on the modified retrospective basis and as such there will be no restatement of comparators within the 2019 Annual Report & Accounts. Comparative data will continue to be reported under IAS 17.

On adoption of the standard on 1 January 2019, we recognised lease liabilities for operating leases of £328 million. We elected the transitional option to set the RoU asset equal to the related lease liability (adjusted for current amounts accrued in respect of rent free periods) for all leases as at 1 January

2019 and therefore there is no opening adjustment to retained earnings. The total amount of RoU asset recognised on 1 January was £313 million. The weighted average incremental borrowing rate used to measure lease liabilities was 5.5%.

We have applied the available practical expedients of exempting leases with a short life (less than 12 months) or low value (less than £5,000). These leases will continue to be recognised on a straight line basis over the lease term and in total are immaterial to the Bank. As a result, the key leases to which the full requirements of IFRS 16 have been applied are our leases of store and head office sites.

For all stores, the lease liability represents the present value of future lease payments for the full lease term, irrespective of any tenant break clauses. For office space, where it is certain we will exercise a break the lease liability has only been calculated up to such date. The key judgement used in the lease liability calculation is the choice of discount rate, which has been set at our incremental cost of borrowing.

Due to the relatively young age of the Group coupled with our store opening profile over recent years, the majority of our leases remain in the first half of their terms, with an average remaining lease length of 20 years. Our business model will also see us continue to open stores in the years ahead, leading to an expanding lease portfolio. These two factors will lead to significantly higher charges recognised in the income statement in the near term when compared to IAS 17, reflecting a different profile of cost recognition under each standard. Charges under IFRS 16 are front loaded in the earlier years of a lease; IAS 17 requires lease expenses to be recognised on a straight line basis.

Our net interest margin ('NIM') will be reduced by the adoption of IFRS 16 since the rental expense (part of operating expenses) under IAS 17 will be replaced by a depreciation and interest expense charge. This interest expense will be recognised within NIM, thus reducing it going forward. Customer NIM + fees considers the margin derived from customer deposits and lending only, and therefore is not impacted by the adoption of IFRS 16.

The table below reconciles the undiscounted lease commitments above to the opening lease liability we will recognise under IFRS 16.

	£'million
Total undiscounted lease commitments at 31 December 2018	**659**
Exclusion of VAT from lease liability	**(116)**
Discounting at a weighted average rate of 5.5%	**(215)**
Lease liability to be included in the statement of financial position at 1 January 2019	**328**

14. Capital management

We manage capital in accordance with prudential rules issued by the PRA and FCA, in line with the EU Capital Requirements Directive. In June 2013 the European Parliament approved new capital reforms (referred to as "CRD IV"), which implements Basel III in Europe. CRD IV legislation has been effective from 1 January 2014. We are committed to maintaining a strong capital base under both existing and future regulatory requirements.

The strength of our capital base is dependent upon the size of our capital relative to risk weighted assets ('RWAs'). On 23rd January 2019, we reported an increase in our RWAs of £900m, due to changes in the way risk weights had been applied to certain commercial and PBTL assets. While this adjustment had an impact on the capital surplus we hold, the Bank remains well capitalised and holds surpluses to both regulatory requirements and management appetite.

	31 December 2018 £'million	31 December 2017 £'million
Ordinary share capital	**-**	-
Share premium	**1,605**	1,304
Retained earnings	**(236)**	(230)
Profit for the year[17]	**27**	11

Intangible assets	**(197)**	(148)
Deferred tax asset (CET1 element)	**(53)**	(57)
Deferred tax liability (CET1 element)	**6**	5
Other reserves	**7**	12
Other regulatory adjustments	**12**	-
Total Tier 1 capital (CET1)	**1,171**	897
Debt securities	**249**	-
Total Tier 2 capital	**249**	-
Total regulatory capital	**1,420**	897

17. 2018 current year profit of £27 million is currently unaudited and is included here as part of the preliminary announcement, which is the same comparative basis as 2017.

15. Related parties

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:

	2018 £'million	2017 £'million
Short-term benefits	**6.0**	4.8
Shared-based payment costs	**3.1**	2.4
Total compensation for key management personnel	**9.1**	7.2

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.

Banking transactions with key management

We provide 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:

	2018 £'million	2017 £'million
Loans outstanding at 1 January	**3.0**	3.2
Loans relating to persons and companies newly considered related parties	**0.1**	-
Loans relating to persons and companies no longer considered related parties	**-**	(0.3)
Loans outstanding as at 1 January for current key management personnel and their connected persons	**3.1**	2.9
Loans issued during the year	**0.8**	0.4
Loan repayments during the year	**(0.1)**	(0.3)
Loans outstanding as at 31 December	**3.8**	3.0
Interest expense on loans payable to the Group (£'000)	**82**	80

There were ten (31 December 2017: seven) loans outstanding at 31 December 2018 totalling £3.8 million (31 December 2017: £3.0 million). Of these, nine are residential mortgages secured on property and one is an unsecured loan; all loans were provided on our standard commercial terms.

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.

Credit card balances outstanding at 31 December were as follows:

	2018 **£'000**	2017 £'000
Credit cards outstanding at 31 December	**34**	27

Deposit balances outstanding at 31 December were as follows:

	2018 **£'million**	2017 £'million
Deposits held at 1 January	**3.4**	5.2
Deposits relating to persons and companies newly considered related parties	**0.3**	-
Deposits relating to persons and companies no longer considered related parties	**(0.2)**	(3.0)
Deposits held as at 1 January for current key management personnel and their connected persons	**3.5**	2.2
Net amounts deposited	**1.0**	1.2
Deposits outstanding at 31 December	**4.5**	3.4

Other transactions with related parties
The following transactions were carried out with related parties:

	2018 **£'000**	2017 £'000
Architectural design services	**4,084**	4,135
Creative and brand services	**498**	513
Total purchase of services with entities connected to key management personnel	**4,582**	4,648
Amounts outstanding as at 31 December owed by Metro Bank	**51**	23

Architecture, design, creative and brand services are provided by InterArch, Inc. ('InterArch'), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II, the 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 an annual review by our Audit Committee using benchmarking reviews conducted by independent third parties. For the architectural design contract, which covers the build and design of our stores, a big four professional services firms carries out the benchmarking review. The creative and brand services contract which covers branding, marketing and advertising services is reviewed by the largest independent global marketing audit firm. For 2018, having reviewed the output from the independent audit of each contract, the Audit Committee has concluded that the 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.

In order to expand the suppliers used, the management intends to run a competitive tender in 2019 to identify an additional alternative supplier of architecture services.

Architectural design services
InterArch provide various architectural design services, including pre-design, architectural design, interior design, 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 final construction costs. Certain additional services are provided on an hourly basis. The contract for architectural design services is currently being renegotiated. As part of the renegotiation, any recommendations of the independent audit have been picked up and included in the contract.

Creative brand services
InterArch also provide branding, marketing and advertising services. The contract for creative and brand services is currently being renegotiated. As part of the renegotiation, any recommendations of the independent audit have been picked up and included in the contract.

For 2019, both the architectural design services and creative and brand services contracts have been aligned to be effective from 28th February 2019, for one year. In addition, both contracts have been subjected to the bank's recently adopted supplier risk management process.

16. Post Balance Sheet Events

Risk weighted asset restatement
On 23 January 2019 we announced that we had made an adjustment to our risk weighted assets ('RWAs'). The impact of this adjustment increased the amount of our RWAs as at 31st December by £900 million.

There is no impact to any of the financial information disclosed in these or prior years' financial statements as a result of this adjustment.

RBS alternative remedies package application outcome
On 22 February 2019 we were awarded £120 million from the RBS alternative remedies package-capability and innovation fund, the largest award available.

The financial effects of this award have not been recognised at 31 December 2018. This transaction will reflected in our results from the date we are contractually entitled to the funds.

Key capital disclosures

The information set out within this section does not form part of the statutory accounts for the years ended 31 December 2018 or 31 December 2017.

Key Metrics

The table below summarises our key regulatory metrics as at 31 December 2018 and 31 December 2017.

	31 December 2018 £'million	31 December 2017 £'million
Available capital		
CET1 capital	**1,171**	897
Tier 1 capital	**1,171**	897
Total capital	**1,420**	897
Risk weighted assets ('RWAs')		
Total risk weighted assets	**8,936**	5,882
Risk-based capital ratios as % of RWAs		
CET1 ratio	**13.1%**	15.3%
Tier 1 ratio	**13.1%**	15.3%
Total capital ratio	**15.9%**	15.3%
Additional CET1 buffer requirements as % of RWAs		
Capital conservation buffer requirement	**1.875%**	1.25%
Countercyclical buffer requirement	**0.98%**	-%
Total of bank CET1 specific buffer requirements	**2.855%**	1.25%
Leverage ratio		
Leverage ratio	**5.39%**	5.50%
Liquidity coverage ratio		
Liquidity coverage ratio ('LCR')	**139%**	141%

Capital

Total capital resources have increased by £523 million in 2018 mainly due to £250 million of Tier 2 sub-debt raised in June 2018 and £303m of CET 1 Equity in July 2018. The capital resources amount also included the 2018 profit amount of £27 million. In 2017, the capital resources included the profit amount of £11 million.

RWA & CET1%

The increase in RWAs is mainly due to the growth of credit risk associated with the increase in the loan book during 2018, plus a one-off £900 million adjustment to RWAs made following a review of the commercial property and specialist buy-to-let portfolio.

The combination of these two items resulted in the CET1 ratio decreasing to 13.1% at the end of 2018 from 15.3% in 2017.

Buffer

Total CET1 buffers requirement % have increased due to:

- The Capital conservation buffer requirement increased to 1.875% on the 1st January 2018. During 2017 this requirement was a minimum of 1.25%.
- The PRA also introduced a 0.5% Countercyclical Buffer (CcyB) requirement in June 2018 and this was increased to 1% in November 2018. The 0.98% shown in the table above is the weighted average of CcyB's issued by various national bodies and exposures in those countries.

Leverage Ratio

The table below shows the bank's Tier 1 Capital and Total Leverage Exposure that are used to derive the Leverage Ratio. The leverage ratio is the ratio of Tier 1 Capital to Total Leverage exposure.

	31 December 2018 £'million	31 December 2017 £'million
Common equity tier 1 capital	**1,171**	897
Additional tier 1 capital	**-**	-
Tier 1 capital	**1,171**	897
CRD IV Leverage exposure	**21,704**	16,450
Leverage ratio	**5.39%**	5.50%

Our leverage ratio is 5.39% which is in excess of the Basel Committee's minimum capital requirement of 3.0% and our strategic target of maintaining a UK leverage ratio of greater than 4.0%.

Liquidity coverage ratio

The table below shows the bank's Total HQLA and total net cash outflow that are used to derive the liquidity coverage ratio.

	31 December 2018 £'million	31 December 2017 £'million
Total HQLA	**3,489**	2,851
Total net cash outflow	**2,506**	2,022
Liquidity coverage ratio ('LCR')	**139%**	141%

Our LCR was 139% at 31st December 2018 which exceeds the Basel Committee's minimum of 100%. At 31st December 2017 the Basel Committee's minimum was 90%.

The Bank's LCR % has remained relatively stable year on year.

Overview of RWAs and capital requirements

The table below sets out the risk weighted assets and Pillar 1 capital requirements for Metro Bank. The bank has applied the standardised approach to measure credit risk and the basic indicator approach to measure operational risk. Under the approach the bank calculates its Pillar 1 capital requirement based on 8% of total RWAs. This covers credit risk, operational risk, market risk and counterparty credit risk.

	31 December 2018 £'million	31 December 2017 £'million	Pillar 1 capital required 31 December 2018 £'million
Credit risk (excluding counterparty credit risk (CCR))	**8,560**	5,646	685
Of which the standardised approach	**8,560**	5,646	685
CCR	**2**	-	-
Of which mark to market	**2**	-	-
Of which CVA	**-**	-	-
Market risk	**3**	2	-
Operational risk	**370**	234	30
Of which basic indicator approach	**370**	234	30
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	-	-
Total	**8,936**	5,882	715

The increase of £3,054 million in the RWAs has been driven by increases in loan exposures, the £900m adjustment, and an increase in Operational Risk RWAs caused by Revenue growth.

Credit risk exposures by exposure class 2018

Metro Bank's Pillar 1 capital requirement for Credit Risk is set out in the table below. The Pillar 1 requirement in respect of credit risk is based on 8% of the RWAs for each of the following standardised exposure classes.

Exposures subject to the standardised approach	**Exposure Value £'million**	**RWA £'million**	**Capital Required £'million**
Central governments or central banks	**2,652**	**-**	**-**
Institutions	**188**	**38**	**3**
Corporates	**633**	**574**	**46**
Retail	**859**	**565**	**45**
Secured by mortgages on immovable property	**12,989**	**6,015**	**482**
Covered bonds	**507**	**51**	**4**
Claims on institutions and corporates with a short-term credit assessment	**134**	**66**	**5**
Securitisation position	**3,061**	**595**	**48**
Exposure at default	**59**	**65**	**5**
Other exposures	**622**	**591**	**47**
Total	**21,704**	**8,560**	**685**

Credit risk exposures by exposure class 2017

Exposures subject to the standardised approach	Exposure Value £'million	RWA £'million	Capital Required £'million
Central governments or central banks	2,375	-	-
Institutions	112	22	2
Corporates	602	548	44
Retail	742	485	39
Secured by mortgages on immovable property	8,512	3,316	265
Covered bonds	317	32	3
Claims on institutions and corporates with a short-term credit assessment	249	120	10
Securitisation position	3,025	626	50
Exposure at default	54	58	5
Other exposures	462	439	35
Total	16,450	5,646	453

Total credit risk exposures at the end of 2018 have increased by £5,254 million, primarily due to increases on lending secured on immovable property (£4,477 million) in line with Bank's overall lending growth, and increases in cash held with the Bank of England.

The RWAs have increased mainly due to the growth in lending, which has been mainly driven by mortgages and loans to businesses secured by property. Of the overall £2,914 million increase in RWAs, £900m was due to the adjustment made to change the risk weighting applied to commercial loans secured against property and PBTL assets, where portfolios are larger or more complex.

Capital Resources

The table below summarises the composition of regulatory capital.

	31 December 2018 £'million	31 December 2017 £'million
Share capital and premium	**1,605**	1,304
Retained earnings	**(236)**	(230)
Profit for the year[18]	**27**	11
Available for sale reserve	**(3)**	(4)
Other reserves	**10**	16
Intangible assets	**(197)**	(148)
Net deferred tax assets/deferred tax liabilities	**(47)**	(52)
Other regulatory adjustments	**12**	
CET 1 capital	**1,171**	897
Tier 1 capital	**1,171**	897
Tier 2 capital	**249**	-
Total capital resources	**1,420**	897

18. 2018 current year profit of £27 million is currently unaudited and is included here as part of the preliminary announcement, which is the same comparative basis as 2017.

The Bank's capital adequacy was in excess of the minimum required by the regulators at all times.

ENDS

About Metro Bank

Metro Bank is the revolution in British banking. It is celebrated for its exceptional customer experience and achieved the top spot in the Competition and Market Authority's Service Quality Survey among personal current account holders for its overall service and came second among business current account holders in February 2019. It was also awarded 'Best All Round Personal Finance Provider' at the Moneynet Personal Finance Awards 2019, as well as 'Most Trusted Financial Provider' at the Moneywise Customer Service Awards in 2016 and 2017 and 'Best Financial Provider' at the Evening Standard Business Awards 2017. It is recognised by Glassdoor in its 'Best Place to Work UK 2019' top 50 list.

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 offers customers real choice.

The bank employs over 3,900 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.

Metro Bank PLC is an independent UK bank - it is not affiliated with any other bank or organisation (including the METRO newspaper or its publishers) anywhere in the world. Please refer to Metro Bank using the full name.

DISCLAIMER

The securities referred to herein have not been and will not be registered under the US Securities Act of 1933 (the "**Securities Act**") or under the securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, pledged or otherwise transferred in the United States absent registration under the Securities Act, or pursuant to an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities law. Metro Bank plc (the "**Company**") does not intend to register the securities or conduct a public offering in the United States. Any failure to comply with the foregoing restrictions may constitute a violation of US securities laws. This announcement (the "**Announcement**") does not constitute or form part of an offer or invitation to sell or a solicitation of an offer to buy or subscribe for or otherwise acquire any securities in any jurisdiction or an inducement to engage in investment activity. There shall be no offers or sales of shares or other securities in any jurisdiction in which such offer or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

The matters described in this Announcement are subject to discussion and amendment, and neither it nor any part of it shall form the basis of, or be relied on in connection with, any contract to purchase or subscribe for any securities of the issuer or any subsidiary or affiliate of or related to the Company nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. This Announcement does not, and is not intended to, constitute or form part of, and should not be construed as, an offer or invitation to sell, or a solicitation of an offer to purchase, subscribe for or otherwise acquire, any securities of Company, nor shall it or any part of it form the basis of or be relied upon in connection with or act as any inducement to enter into any contract or commitment or investment decision whatsoever.

To the extent available, the industry, market and competitive position data contained in this Announcement come from official or third party sources. Third party industry publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. While the Company reasonably believes that each of these publications, studies and surveys has been prepared by a reputable source, the Company has not independently verified the data contained therein. In addition, certain of the industry, market and competitive position data contained in this Announcement come from the Company's own internal research and estimates based on the knowledge and experience of the Company's management in the markets in which the Company operates and the current beliefs of relevant members of management. While the Company reasonably believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change. Accordingly, reliance should not be placed on any of the industry, market or competitive position data contained in this Announcement.

The information contained in this document does not purport to be comprehensive. None of the Company or its subsidiary undertakings or affiliates, or their directors, officers, employees, advisers or agents accepts any responsibility or liability whatsoever for/or makes any representation or warranty, express or implied, as to the truth, fullness, fairness, accuracy or completeness of the information in this Announcement (or whether any information has been omitted from the Announcement) or any other information relating to the Company, its subsidiaries or associated companies, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available or for any loss howsoever arising from any use of this Announcement or its contents or otherwise arising in connection therewith. To the fullest extent permissible by law, such persons disclaim all and any responsibility or liability, whether arising in tort, contract or otherwise, which they might otherwise have in respect of this

Announcement. This Announcement has not been verified and is subject to verification, correction, completion and change without notice.

Keefe, Bruyette & Woods (acting through Stifel Nicolaus Europe Limited) ('KBW') and Jefferies International Limited ('Jefferies'), which are authorised and regulated in the United Kingdom by the Financial Conduct Authority (the 'FCA'), and RBC Europe Limited (trading as RBC Capital Markets) ('RBC'), which is authorised by the Prudential Regulation Authority (the "PRA") and regulated in the United Kingdom by the PRA and FCA, are acting exclusively for the Company and no one else in connection with the proposed equity raise referred to in this Announcement, and will not regard any other person (whether or not a recipient of this Announcement) as a client in relation to the proposed equity raise and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for providing advice in relation to the proposed equity raise referred to in this Announcement or any other transaction, arrangement or matter referred to in this Announcement.

This Announcement has been issued by the Company and is the sole responsibility of the Company. No representation or warranty, express or implied, is or will be made as to, or in relation to, and no responsibility or liability is or will be accepted by KBW, Jefferies or RBC or their respective affiliates or agents as to, or in relation to, the accuracy or completeness of this Announcement or any other information made available to or publicly available to any interested party or its advisers, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available, and any liability therefore is expressly disclaimed.

The information and opinions contained in this Announcement are provided as at the date of the Announcement, are subject to change without notice and do not purport to contain all information that may be required to evaluate the Company. None of the Company or its subsidiary undertakings or affiliates, or their respective directors, officers, employees advisers or agents, or any other party undertakes or is under any duty to update this Announcement or to correct any inaccuracies in any such information which may become apparent or to provide you with any additional information. No reliance may, or should, be placed for any purpose whatsoever on the information contained in this Announcement or on its completeness, accuracy or fairness. Recipients should not construe the contents of this Announcement as legal, tax, regulatory, financial or accounting advice and are urged to consult with their own advisers in relation to such matters.

This Announcement contains forward-looking statements. Forward-looking statements are not historical facts but are based on certain assumptions of management regarding our present and future business strategies and the environment in which we will operate, which the Company believes to be reasonable but are inherently uncertain, and describe the Company's future operations, plans, strategies, objectives, goals and targets and expectations and future developments in the markets. 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, express or implied, is made regarding future performance. Some of the information is still in draft form and will only be finalised, if legally verifiable, at a later date. 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 parties named above disclaim any such obligation.