Metro Bank PLC

Interim Report

Six months ended 30 June 2016

Contents

Company Information

Board of Directors

Non-Executive Chairman
Vernon W. Hill II

Non-Executive Directors
Stuart Bernau
Keith Carby
Roger Farah
Lord Howard Flight
Alastair (Ben) Gunn (Senior Independent Director)
Gene Lockhart
Sir Michael Snyder

Executive Directors
Craig Donaldson – Chief Executive Officer
Mike Brierley – Chief Financial Officer

Company Secretary
Mike Brierley

Registered Office
One Southampton Row
London
WC1B 5HA

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Registered Number
6419578

www.metrobankonline.co.uk

A Revolution in Banking

Metro Bank PLC ("Metro Bank" or "the Bank") is Britain's first new High Street bank in over 100 years. We offer a superior retail-focussed customer service proposition that emphasises simple, straightforward banking in order to turn our customers into "FANS".

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 41 stores (not 'branches') across London and the surrounding commuter areas, with c780,000 customer accounts, £6.6 billion in customer deposits and £4.6 billion of customer loans as of 30 June 2016.

Driven by and reflective of its customer service-led model and culture, Metro Bank's "stores" are open seven days a week, early morning until late. Metro Bank also supports 24/7 telephony, digital and mobile banking, and offers simple products and fair pricing.

Metro Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority. Metro Bank is a member of the British Bankers Association.

Key Highlights

The following metrics represent the core key performance indicators for the bank:

	30 June 2016	30 June 2015	Improvement
Profit and loss (6 months)			
Underlying loss after tax**	£12.1m	£16.1m	25%
Statutory loss after tax	£17.0m	£16.5m	
Total income	£84.1m	£55.9m	50%
Total operating expenses	£99.8m	£74.7m	34%
Net interest margin in period	1.94%	1.99%	
Average cost of deposits in period	0.87%	0.82%	
	30 June 2016	**31 December 2015**	
Customer data			
Customer loans	£4,629m	£3,543m	31%
Ratio retail customers: commercial customers	*65%:35%*	*64%:36%*	
Customer deposits	£6,599m	£5,108m	29%
Ratio retail customers: commercial customers	*48%:52%*	*47%:53%*	
Loan to deposit ratio	70%	69%	
Asset quality			
Non-performing assets to period-end assets	0.07%	0.07%	
Non-performing loans to period-end loans	0.12%	0.12%	
Loan loss reserve to non-performing loans	146%	156%	
Loan loss reserve to total loans	0.18%	0.19%	
Cost of risk	0.12%	0.29%	
Capital ratios			
Common Equity Tier 1 (“CET1”) ratio	21%	13%	
Regulatory leverage ratio	8%	5%	
Capital as %age Deposits	12%	8%	
Capital as %age of total assets	10%	7%	
Total assets	£8,351m	£6,148m	36%

Customer accounts have increased from 655,000 on 31 December 2015 to 780,000 at 30 June 2016

Customer loans:	Customer deposits:	Number of stores:
£4,629m	**£6,599m**	**41**

**The underlying loss after tax removes the effects of the fees associated with listing and the FSCS levy.

Business and financial review

Income statement review

Summary income statement	Half year to 30 June 2016 £'000	Half year to 30 June 2015 £'000	Growth
Net interest income	66,663	37,632	77%
Fee and commission income	10,084	6,927	46%
Net gains on sale of investment securities	1,601	6,125	
Other income	5,724	5,191	
Total operating income	84,072	55,875	50%
Operating expenses	(84,558)	(65,596)	29%
Depreciation and amortisation	(10,117)	(8,593)	
Fees associated with listing	(3,875)	-	
FSCS levy	(1,252)	(533)	
Credit impairment charges	(2,405)	(1,831)	
Loss before tax	(18,135)	(20,678)	(12%)
Tax	1,167	4,166	
Loss after tax	(16,968)	(16,512)	3%

Total operating income increased 50% to £84.1m (2015: £55.9m). Net interest income is the largest component of Metro Bank's total operating income, accounting for 79% and 67% of total operating income in H1 2016 and H1 2015 respectively. Income growth reflects continued strong loan growth across all of our lending books and the maintenance of a low cost of funds (cost of deposits of 0.87 for the 6 months to 30 June 2016; 6 months to 30 June 2015: 0.82%), as well as an increase in our loan to deposit ratio from 58% at 30 June 2015 to 70% at 30 June 2016.

Metro Bank earns fee and commission income through its range of commercial and retail banking services. In the six month periods ended 30 June 2015 and 2016, Metro Bank earned £6.9 million and £10.1 million in fee and commission income, respectively, of which £2.3 million and £3.3 million, respectively, was attributable to the rental of safe deposit boxes by its customers.

Operating expenses increased 29% to £84.6 million (2015: £65.6 million) as we continued to invest in strengthening the capacity of our business. The increase in operating expenses was primarily due to the expansion of the store network, continued investment in IT infrastructure and digitisation of the bank.

Loss before tax of £18.1 million shows a 12% decrease on the prior year. Adjusting for the fees associated with listing and the FSCS levy, the loss before tax has reduced by 35%.

Balance sheet review

Summary balance sheet	30 June 2016	31 December 2015	Growth
Assets	**£'000**	**£'000**	
Cash and balances with the Bank of England	398,707	217,900	
Loans and advances to banks	98,871	64,248	
Loans and advances to customers	4,628,739	3,542,548	31%
Investment securities	2,853,683	1,999,792	
Property, plant and equipment	192,656	165,257	
Intangible assets	67,300	54,243	
Other assets	111,088	104,034	
Total assets	8,351,044	6,148,022	36%
Liabilities			
Deposits from customers	6,599,059	5,107,656	29%
Other liabilities	957,690	633,191	
Total liabilities	7,556,749	5,740,847	
Total shareholders' equity	794,295	407,175	

We continue to be focussed on diversified deposit growth in order to fund high quality customer loans.

During the first half of 2016, total assets increased by 36% to £8,351 million (31 December 2015: £6,148 million) driven by continued strong growth of loans and advances to customers, particularly in the business and commercial and residential mortgage sectors.

As of 30 June 2016, total deposits were £6,599 million, up from £5,108 million at the start of the year, representing six monthly growth of 29%. The increase in deposits from customers over this period was primarily due to the continued expansion of the store network and increase in brand awareness, the expansion and deepening of commercial customer relationships, and a continued focus on targeting funds from SIPP pension providers and solicitors' funds. Deposits from commercial customers represent 52% of total deposits at 30 June 2016 (31 December 2015: 53%).

Total gross loans as of 30 June 2016 were £4,637 million, up from £3,549 million at 31 December 2015, an increase of £1,088 million or 31%. The increase in Metro Bank's loans and advances to customers over this period was primarily driven by the continued expansion of the store network and increase in brand awareness; growth in the commercial lending team; and continued expansion of Metro Bank's residential mortgage intermediary network.

The credit quality of the book remains high, with a ratio of non-performing loans (90 days+) to period-end loans of 0.12% (31 December 2015: 0.15%).

During the year we increased our holding in investment securities to £2,854 million (31 December 2015: £2,000 million), primarily due to the increase in customer deposits and investment of proceeds from the March 2016 capital raise. Investment securities are principally UK Government securities, retail mortgage backed securities and corporate and other bonds.

Our liabilities predominantly comprise deposits from customers (30 June 2016: £6,599 million; 31 December 2015: £5,108m).

Capital structure

Capital is held by the Bank to protect its depositors, to cover its inherent risks, to provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, the Bank considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks. Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements. The Bank raised £400m further capital in March 2016 via a private placement.

The Bank manages capital in accordance with prudential rules issued by the PRA, in line with the EU Capital Requirements Directive. Management produces regular assessments of the current and forecasted level of capital, as well as the results of stress testing, to the Directors and the Risk Oversight Committee. Metro Bank complied with all regulatory capital requirements throughout the period ended 30 June 2016. The Common Equity Tier 1 ratio at 30 June 2016 was 21% (31 December 2015: 13%). The regulatory leverage ratio (capital as %age of total assets) was 8% (31 December 2015: 5%).

Funding

The bank's loan to deposit ratio was 70% at 30 June 2016 (31 December 2015: 69%). The bank continues to be self-funded through deposits from our retail and commercial customers and does not borrow money from the wholesale funding markets (except for repurchase agreements used to enable the bank to utilise the Funding for Lending Scheme and to manage short term liquidity). We have continued to experience strong deposit growth during 2016, with deposits increasing from £5,108 million at the end of 2015 to £6,599 million at 30 June 2016. Our range of products has increased throughout the period, adding increased diversity to our funding mix. Being funded through customer deposits mitigates the risks posed by and costs incurred through the use of wholesale funding.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Craig Donaldson
Chief Executive Officer
27 July 2016

Principal risks and uncertainties

There has been no significant change to the Bank's business model, risk management framework or risk appetite during the six month period ended 30 June 2016.

A detailed description of the principal risks and uncertainties to which the Bank is exposed, along with the Bank's approach to mitigating these risk, is set out in the Risk Management Report on pages 19 to 23 and Notes 27 to 30 of the 2015 Annual Report. These risks include:

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

During the six months to 30 June 2016, the Bank has not identified any new principal risks and uncertainties that will impact the remaining six months of the year. Metro is in a strong position to deal with any post European Referendum uncertainty. Since the Referendum vote we have seen no change in customer behaviour or impact on business flows.

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

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

The Risk Oversight Committee assists the Board in providing leadership, direction, and oversight with regard to the Bank's risk governance and management, and also assists the Board in fostering a culture within the Bank that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control.

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

Metro Bank’s Chief Risk Officer (“CRO”) is accountable for leadership of the risk function, which is independent from the Bank’s operational and commercial functions. It is responsible for ensuring that appropriate risk management processes, policies and controls are in place, and that they are sufficiently robust, thereby ensuring that key risks are identified, assessed, monitored and mitigated. Through the risk function, the CRO is responsible for providing assurance to the Board and Directors that the principal risks are appropriately managed and that the Bank is operating within risk appetite.

Directors' Responsibility Statement

The Directors are responsible for preparing the interim financial report in accordance with applicable law and regulations.

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements , which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by DTR 4.2.4R;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.28R (disclosure of related parties' transactions and changes therein).

On behalf of the Board

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

Independent review report to Metro Bank PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Metro Bank PLC's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Report of Metro Bank PLC for the 6 month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 30 June 2016;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Other Matter

The accompanying financial statements include comparative information as required by IAS 34. The comparative information as at, and for the period ended 30 June 2015 has not been audited or reviewed.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
London
27 July 2016

Condensed consolidated statement of comprehensive income

For the half year to 30 June 2016

	Notes	Half year to 30 June 2016 £'000	Half year to 30 June 2015* £'000
Interest income	8	96,134	52,481
Interest expense	9	(29,471)	(14,849)
Net Interest Income		**66,663**	**37,632**
Fee and commission income		10,084	6,927
Net gains on sale of investment securities		1,601	6,125
Other income		5,724	5,191
		84,072	**55,875**
Operating expenses		(84,558)	(65,596)
Depreciation and amortisation		(10,117)	(8,593)
Costs associated with listing		(3,875)	-
FSCS levy		(1,252)	(533)
Total operating expenses		**(99,802)**	**(74,722)**
Credit impairment charges		(2,405)	(1,831)
Loss before tax		**(18,135)**	**(20,678)**
Taxation	10	1,167	4,166
Loss for the period		**(16,968)**	**(16,512)**
Other comprehensive income for the period			
Items which will be reclassified subsequently to profit or loss where specific conditions are met:			
Available for sale investments (net of tax):			
- fair value gains/(losses)		5,776	(4,140)
- fair value gains transferred to the income statement on disposal		(1,601)	(6,125)
Total other comprehensive income/(expense)		**4,175**	**(10,265)**
Total comprehensive loss for the period		**(12,793)**	**(26,777)**
Loss per share			
Basic loss per share	15	**24 pence**	**28 pence**
Diluted loss per share	15	**24 pence**	**28 pence**

* The comparative information presented for the half year period ended 30 June 2015 has not been audited or reviewed.

Condensed consolidated balance sheet

As at 30 June 2016

	Notes	30 June 2016 £'000	31 December 2015 £'000
Assets			
Cash and balances with the Bank of England		398,707	217,900
Loans and advances to banks	11	98,871	64,248
Loans and advances to customers	11	4,628,739	3,542,548
Available for sale investment securities	12	501,214	363,807
Held to maturity investment securities	12	2,352,469	1,635,985
Property, plant and equipment		192,656	165,257
Intangible assets		67,300	54,243
Prepayments and accrued income		34,389	30,456
Deferred tax asset	10	54,267	53,053
Other assets		22,432	20,525
Total assets		**8,351,044**	**6,148,022**
Liabilities			
Deposits from customers		6,599,059	5,107,656
Repurchase agreements		862,361	561,778
Other liabilities		95,329	71,413
Total liabilities		**7,556,749**	**5,740,847**
Equity			
Called up share capital	14	-	-
Share premium account	14	1,027,816	629,304
Retained earnings		(230,408)	(213,440)
Other reserves		(3,113)	(8,689)
Total equity		**794,295**	**407,175**
Total equity and liabilities		**8,351,044**	**6,148,022**

The accounting policies, notes and information on pages 16 to 28 form part of the financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 27 July 2016 and were signed on its behalf by:

Vernon W. Hill II
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

Condensed consolidated cash flow statement

For the half year to 30 June 2016

	Notes	Half year to 30 June 2016 £'000	Half year to 30 June 2015* £'000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		(18,135)	(20,678)
Adjustments for:			
Depreciation and amortisation of intangible and tangible assets		10,117	8,593
Share option reserve		1,438	1,088
Gain on sale of securities and fair value gains on derivatives		(1,590)	(6,124)
Accrued interest on and amortisation of investment securities		(7,880)	(5,756)
Changes in operating assets		(1,092,030)	(625,211)
Changes in operating liabilities		1,815,796	936,093
Net cash inflows from operating activities		**707,716**	288,005
Cash flows from investing activities			
Sales of investment securities		217,013	693,731
Purchase of investment securities		(1,056,503)	(756,050)
Purchase of property, plant and equipment	13	(35,112)	(26,222)
Purchase of intangible assets		(15,461)	(11,069)
Net cash outflows from investing activities		**(890,063)**	**(99,610)**
Cash flows from financing activities			
Share issues	14	403,023	-
Cost of share issues	14	(5,246)	-
Net cash inflows from financing activities		**397,777**	-
Net increase in cash and cash equivalents		**215,430**	188,395
Cash and cash equivalents at start of period		282,148	215,670
Cash and cash equivalents at end of period		**497,578**	404,065
Loss before tax includes:			
Interest received		94,367	51,726
Interest paid		(25,572)	(13,202)
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		398,707	368,621
Loans and advances to banks		98,871	35,444
		497,578	404,065

Condensed consolidated statement of changes in equity

For the half year to 30 June 2016

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Available for sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance at 1 January 2016	**-**	**629,304**	**(213,440)**	**(12,018)**	**3,329**	**407,175**
Net loss for the year	-	-	(16,968)	-	-	(16,968)
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	4,175	-	4,175
Total comprehensive income	-	-	(16,968)	4,175	-	(12,793)
Share issue		398,512	-	-	-	398,512
Share options at fair value			-	-	1,401	1,401
Balance as at 30 June 2016	**-**	**1,027,816**	**(230,408)**	**(7,843)**	**4,730**	**794,295**
Balance at 1 January 2015	**-**	**629,304**	**(164,243)**	**(4,314)**	**1,654**	**462,401**
Net loss for the year			(16,521)			(16,521)
Other comprehensive income, net of tax, relating to available for sale investments				(10,265)		(10,265)
Total comprehensive income	-	-	(16,521)	(10,265)	-	(26,786)
Share issue						
Share options at fair value					1,088	1,088
Balance as at 30 June 2015*	-	**629,304**	**(180,764)**	**(14,579)**	**2,742**	**436,703**
Notes	**14**	**14**				

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

Notes to the financial statements

1. General information

Metro Bank provides retail and corporate banking services in the UK and is a public limited liability company incorporated and domiciled in England and Wales. The address of its registered office is: One Southampton Row London WC1B 5HA.

2. Basis of preparation and going concern

The condensed consolidated interim financial statements of Metro Bank and its subsidiaries (the Group) for the six months ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 26 July 2016.

These condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and IAS 34 Interim Financial Reporting as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the Annual Report for the year ended 31 December 2015. Copies of the 2015 Annual Report are available on the Group's website.

The comparative financial information for the year ended 31 December 2015 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the condensed consolidated half-year financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position and have had regard to the principal risks and uncertainties of the liquidity and capital requirements of the business over the next 12 months.

3. Accounting policies

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

4. Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which are not effective for annual periods ending on 31 December 2016 and which have not been applied in preparing these condensed consolidated half-year financial statements were set out in the 2015 Annual Report.

5. Presentation of information

Presentation of risk disclosures

IAS 34 Interim Financial Statements requires certain disclosures outlined in IFRS 7 Financial Instruments: Disclosure. These include disclosures concerning the nature and extent of risks relating to financial instruments and have been included within the Principal risks and uncertainties section on pages 7 to 8.

6. Critical estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best assessment of the outcome, actual results may ultimately differ from those estimates. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly.

There have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2015.

7. Operating segments

Metro Bank provides retail and corporate banking services. The Board considers the results of Metro Bank as a whole when assessing the performance of Metro Bank and allocating resources. Accordingly, Metro Bank has a single operating segment.

Metro Bank's revenue from external customers comprises interest income from its retail and corporate banking services, which was £96.1 million in the half year to 30 June 2016 and £52.5 million in half year to 30 June 2015*.

Metro Bank operates solely in the UK and as such no geographical analysis is required.

8. Interest income

	Half year to 30 June 2016 £'000	Half year to 30 June 2015* £'000
Investment securities	**21,034**	13,716
Loans and advances to customers	**75,100**	38,765
Total interest Income	**96,134**	52,481

9. Interest expense

	Half year to 30 June 2016 £'000	Half year to 30 June 2015* £'000
Interest on customer accounts	**22,874**	11,615
Interest on repurchase agreements	**4,145**	1,540
Other	**2,452**	1,694
Total interest expense	**29,471**	14,849

10. Taxation

	Half year to 30 June 2016 £'000	Half year to 30 June 2015* £'000
Current tax:		
UK corporation tax	**348**	-
Adjustment in respect of prior years	**-**	-
Total current tax	**348**	-
Deferred tax:		
Current period	**(2,798)**	(4,166)
Adjustment in respect of prior years	**1,283**	-
Total deferred taxation	**(1,515)**	(4,166)
Total taxation	**(1,167)**	(4,166)

Total tax paid in relation to income during the half year was £nil (30 June 2015: £nil).

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 taxable profits from which the future of the underlying timing differences can be deducted. The entirety of the deferred tax asset recognised by Metro Bank is expected to be recovered after more than 12 months. There is no time limit on the recovery of the deferred tax asset.

Further information on the details of the judgements taken around deferred tax are discussed in note 2.23 to the 2015 Annual Report.

Analysis of deferred tax assets and deferred tax liabilities is as follows:

	30 June 2016 £'000	31 December 2015 £'000
Deferred tax assets to be recovered after more than 12 months:	**64,759**	57,662
Deferred tax liabilities to be recovered after more than 12 months:	**(10,492)**	(4,609)
Deferred tax assets (net)	**54,267**	53,053

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

2016	**Unused tax losses £'000**	**Share based payments £'000**	**Property, plant & equipment £'000**	**Intangible assets £'000**	**AFS reserve £'000**
Deferred tax assets	**60,806**	**1,542**	**71**	**79**	**2,261**
Deferred tax liabilities	**-**	**(873)**	**(2,774)**	**(3,838)**	**(3,007)**
At 1 January	**56,163**	**1,499**	**(1,861)**	**(2,747)**	**-**
Income statement	4,643	(1,273)	(842)	(1,013)	-
Other comprehensive income	-	-	-	-	(746)
Equity	-	443	-	-	-
At 30 June	**60,806**	**669**	**(2,702)**	**(3,760)**	**(746)**

10. Taxation (continued)

2015*	Unused tax losses £'000	Share options £'000	Property, plant & equipment £'000	Intangible assets £'000	AFS reserve £'000
Deferred tax assets	50,856	901	-	-	-
Deferred tax liabilities	-	-	(1,472)	(1,542)	-
At 1 January	46,611	176	(1,001)	(2,141)	-
Income statement	4,245	725	(471)	(333)	-
Other comprehensive income				932	
At 30 June	50,856	901	(1,472)	(1,542)	-

11. Loans and advances to customers and banks

Total loans and advances to customers

	30 June 2016 £'000	31 December 2015 £'000
Gross Loans and advances to customers	**4,636,993**	3,549,331
Less: allowance for impairment	**(8,254)**	(6,783)
Net Loans and advances to customers	**4,628,739**	3,542,548
Amounts include:		
Repayable on demand or at short notice	**43,247**	38,385

Loans and advances to customers by category

	30 June 2016 £'000	31 December 2015 £'000
Individual (retail customers):		
- Overdraft	**64,531**	49,701
- Credit Cards	**6,522**	5,976
- Term Loans	**87,877**	63,793
- Mortgages	**2,853,318**	2,156,419
Corporate:		
- Overdraft	**27,790**	24,566
- Credit Cards	**1,459**	887
- Term Loans	**1,441,883**	1,111,239
- Asset and Invoice Finance	**139,126**	122,644
- Senior Secured Lending	**14,487**	14,106
Total loans to customers	**4,636,993**	3,549,331

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

Credit quality of loans and advances to customers and banks

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

a) A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.

b) The impairment allowance includes allowances against financial assets that have been individually- impaired and those subject to collective impairment.

c) 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.

d) Impaired loans that are individually assessed consist predominantly of corporate loans that are past due and for which an individual allowance has been raised.

e) Portfolio impaired loans, which are not included in the categories above, consist predominantly of retail loans that are 90 days or more past due and are subject to collective impairment.

	30 June 2016	
	Loans and advances to customers £’000	**Loans and advance to banks £’000**
Neither past due nor impaired	**4,583,417**	**98,871**
Past due but not impaired	**37,668**	**-**
Individually impaired	**3,354**	**-**
Portfolio impaired	**12,554**	**-**
Total	**4,636,993**	**98,871**
Less: allowance for impairment	**(8,254)**	**-**
Total	**4,628,739**	**98,871**
Individually impaired	**(721)**	**-**
Portfolio impaired*	**(7,533)**	**-**
Total	**(8,254)**	**-**

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

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

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

Past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Loans and advances over 90 days past due may not be considered impaired where delays do not relate to credit issues. Gross amount of loans and advances to customers that were past due but not impaired were as follows:

30 June 2016

	Mortgages £'000	**Corporate £'000**	**Other £'000**	**Total £'000**
Past due <30 days	**15,520**	**15,680**	**1,286**	**32,486**
Past due 31-60 days	**3,478**	**795**	**313**	**4,586**
Past due 61-90 days	**322**	**21**	**253**	**596**
Over 90 days	**-**	**-**	**-**	**-**
Total	**19,320**	**16,496**	**1,852**	**37,668**

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

31 December 2015

	Mortgages £'000	Corporate £'000	Other £'000	Total £'000
Past due <30 days	24,128	30,534	1,762	56,424
Past due 31-60 days	1,223	425	427	2,075
Past due 61-90 days	745	189	265	1,199
Over 90 days	-	335	-	335
Total	26,096	31,483	2,454	60,033

Residential mortgage lending

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

LTV ratio	**30 June 2016 £'000**	31 December 2015 £'000
Less than 50%	**583,724**	594,445
51-60%	**496,057**	466,030
61-70%	**640,741**	496,963
71-80%	**621,225**	353,219
81-90%	**416,595**	142,702
91-100%	**92,599**	46,219
More than 100%	**2,377**	56,841
Total	**2,853,318**	2,156,419

Loans and advances to corporate customers

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

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

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

	30 June 2016		31 December 2015	
	Gross balance	**Concentration**	Gross balance	Concentration
	£'000	**%**	£'000	%
Real estate (rent, develop, buy and sell)	**850,759**	**59%**	627,904	57%
Health & Social Work	**126,453**	**9%**	95,722	9%
Retail	**117,698**	**8%**	80,030	7%
Legal, Accountancy & Consultancy	**81,648**	**6%**	133,848	12%
Real estate (management of)	**72,454**	**5%**	46,707	4%
Hospitality	**66,238**	**4%**	40,007	4%
Construction	**26,272**	**2%**	39,116	3%
Education	**9,891**	**1%**	3,289	0%
Other	**90,470**	**6%**	44,616	4%
Total	**1,441,883**	**100%**	1,111,239	100%

Debt to value ("DTV") is calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral.

	30 June 2016	31 December 2015
	£'000	£'000
Total commercial lending	**1,624,745**	1,273,442
% of total lending	**35%**	36%
Average DTV	**58%**	57%
DTV > 80%	**7%**	6%

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

Movement in allowances for impairment

	£'000
Allowance for impairment at 1 January 2016	**(6,783)**
Write offs	**351**
Reversal of impairment	**1,620**
Increase in impairment allowance	**(3,442)**
Allowance for impairment at 30 June 2016	**(8,254)**

	£'000
Allowance for impairment at 1 January 2015	(5,439)
Write offs	-
Reversal of impairment	-
Increase in impairment allowance	(1,832)
Allowance for impairment at 30 June 2015*	(7,271)

12. Investment securities

	Level 1 £'000	Level 2 £'000	Total £'000
Investment securities held at fair value (recurring fair value measurement)			
Financial investments: available for sale			
As at 30 June 2016	**218,715**	**282,499**	**501,214**
As at 31 December 2015	189,309	174,498	363,807

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

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

Valuation technique using observable inputs – Level 2
Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

As at 30 June 2016 and 31 December 2015 the financial investments classified as held to maturity were as follows:

	Carrying amount £'000	Fair value £'000
As at 30 June 2016	**2,352,469**	**2,363,793**
At 31 December 2015	1,635,985	1,629,527

13. Property, plant and equipment

	Leasehold property £'000	Land and buildings £'000	Fixtures fittings and equipment £'000	Computers £'000	Total £'000
Cost or valuation					
1 January 2016	156,238	8,273	17,400	27,439	209,350
Additions	12,269	20,931	1,067	845	35,112
Transfers	2,030	-	(2,030)	-	-
30 June 2016	**170,537**	**29,204**	**16,437**	**28,284**	**244,462**
Accumulated depreciation					
1 January 2016	17,110	-	7,920	19,063	44,093
Charge for the year	3,774	-	1,239	2,700	7,713
30 June 2016	**20,884**	**-**	**9,159**	**21,763**	**51,806**
Net book value at 30 June 2016	**149,653**	**29,204**	**7,278**	**6,521**	**192,656**
Cost or valuation					
1 January 2015	119,026	8,273	12,580	22,832	162,711
Additions	20,738	-	1,209	4,269	26,216
30 June 2015*	139,764	8,273	13,789	27,101	188,927
Accumulated depreciation					
1 January 2015	11,197	-	5,069	14,250	30,516
Charge for the year	2,814		1,249	2,905	6,968
30 June 2015*	14,011	-	6,318	17,155	37,484
Net book value at 30 June 2015*	125,753	8,273	7,471	9,946	151,443

14. Share capital

A Ordinary shares

In March 2016, the bank issued 20.0m A Ordinary shares of 0.0001 pence each, for consideration of £400.0 million. Related transaction costs of £5.2m have been deducted from equity during the period.

Additionally in the six months to 30 June 2016 the bank issued 1,089,811 A Ordinary shares; of which 900,818 relate to conversion of 1m B Ordinary shares, 152,130 relate to Executive share awards and 36,863 relate to the exercise of previously awarded share options.

B Ordinary shares

In March 2016 the issued 1 million B Ordinary shares of 0.0001 pence were converted to 900,818 A Ordinary shares and 99,182 Deferred B shares which were subsequently cancelled.

14. Share capital (continued)

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

	30 June 2016 £'000	31 December 2015 £'000
Share premium account		
At beginning of the period	**629,304**	629,304
Issued	**398,512**	-
At end of the period	**1,027,816**	629,304

15. Loss per share

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

	30 June 2016	30 June 2015*
Loss attributable to ordinary equity holders of Metro Bank (£'000)	**(16,968)**	(16,512)
Weighted average number of ordinary shares in issue (thousands)	**69,748**	59,208
Basic loss per share (pence)	**24**	28

For the period ended 30 June 2015, the ordinary shares in issue used in the denominator of the basic loss per share calculation are the A ordinary shares. The B ordinary shares are excluded from the calculation on the basis that prior to a realisation event (listing, sale or takeover offer), the shares have no entitlement to dividends or other distributions of Metro Bank.

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

15. Loss per share (continued)

	30 June 2016	30 June 2015*
Loss attributable to ordinary equity holders of Metro Bank (£'000)	**(16,968)**	(16,512)
Weighted average number of ordinary shares in issue (thousands)	**69,748**	59,208
Diluted loss per share (pence)	**24**	28

16. Fair value of financial instruments

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

		Fair value - Valuation techniques			
	Carrying value £'000	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total fair value £'000**
30 June 2016					
Assets					
Cash and balances with the Bank of England	**398,707**	**-**	**-**	**-**	**398,707**
Loans and advances to banks	**98,871**	**-**	**-**	**98,871**	**98,871**
Loan and advances to customers	**4,628,739**	**-**	**-**	**4,709,787**	**4,709,787**
Investment securities	**2,853,683**	**810,187**	**2,054,820**	**-**	**2,865,007**
Liabilities					
Deposits from customers	**6,599,059**	**-**	**-**	**6,628,109**	**6,628,109**
Repurchase agreements	**862,361**	**-**	**-**	**-**	**862,361**
31 December 2015					
Assets					
Cash and balances with the Bank of England	217,900	-	-	-	217,900
Loans and advances to banks	64,248	-	-	64,248	64,248
Loan and advances to customers	3,542,548	-	-	3,614,877	3,614,877
Investment securities	1,999,792	657,681	1,335,653	-	1,993,334
Liabilities					
Deposits from customers	5,107,656	-	-	5,095,942	5,095,942
Repurchase agreements	561,778	-	-	-	561,778

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

16. Fair value of financial instruments (continued)

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

(a) *Cash and balances with the Bank of England / Loans and advances to banks*
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

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

(c) *Investment securities*

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

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

(e) *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.

17. Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2016 that would materially affect the position of performance of the bank other than the 'Project Revolution Awards' to key management personnel, following the successful private placement and listing of the Bank. The awards totalled £5.7m and were awarded in cash which was used to purchase Restricted Shares for the relevant individuals. 20% of the shares vested immediately with the remaining shares vesting in equal portions of 16% each on 4 March 2017 and each anniversary after that until 4 March 2021.

Architecture, design and branding services are provided to the bank by InterArch, Inc., ("InterArch") a firm which is owned by Shirley Hill, the wife of Vernon W. Hill II the Non-Executive Chairman. The cost of these services in the six months to 30 June 2016 was £1.4 million (six months to 30 June 2015*: £1.2 million. The balance owed to InterArch at 30 June 2016 was £0.3 million (30 June 2015*: £0.1 million).

18. Post Balance Sheet Events

There have been no material post balance sheet events.