Metro Bank PLC

Interim Report

Six months ended 30 June 2018

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Company Information

Board of Directors

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
Monique Melis
Sir Michael Snyder

Executive Directors
Craig Donaldson – Chief Executive Officer
Mike Brierley – Chief Financial Officer (Resigned 29 March 2018)
David Arden – Chief Financial Officer (Appointed 29 March 2018)

Company Secretary
Mike Brierley (Resigned 29 March 2018)
David Arden (Appointed 29 March 2018)

Registered Office
One Southampton Row
London
WC1B 5HA

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

Registered Number
6419578

www.metrobankonline.co.uk

About Metro Bank

Metro Bank is the revolution in British banking. It is celebrated for its exceptional customer experience and was awarded 'Best All Round Personal Finance Provider' at the Moneynet Personal Finance Awards 2018, 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 also recognised by Glassdoor in its 'Best Place to Work UK 2018' 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 3,000 colleagues and is headquartered in Holborn, London.

Key Highlights

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

	6m to 30 June 2018	6m to 30 June 2017	Change	6m to 31 December 2017	Change
Profit and loss (6 months)					
Underlying profit before tax[1]	£24.1m	£6.0m	301%	£15.5m	56%
Statutory profit before tax	£20.8m	£4.4m		£14.3m	
Total income	£189.8m	£131.1m	45%	£162.6m	17%
Total operating expenses	£164.9m	£123.0m	34%	£143.8m	15%
Net interest margin in period	1.85%	1.97%		1.91%	
Average cost of deposits in period	0.57%	0.57%		0.51%	
	30 June 2018	**30 June 2017**	**Change**	**31 December 2017**	**Change**
Customer data					
Customer loans	£12,013m	£7,750m	55%	£9,620m	25%
Ratio retail customers: commercial customers	*68%:32%*	*66%:34%*		*67%:33%*	
Customer deposits	£13,736m	£9,805m	40%	£11,669m	18%
Ratio retail customers: commercial customers	*46%:54%*	*48%:52%*		*47%:53%*	
Loan to deposit ratio	87%	79%	8pp	82%	5pp
Asset quality					
Non-performing loans to period-end loans	0.17%	0.26%	9bp	0.27%	10bp
Loan loss reserve to non-performing loans	199%	50%		55%	
Loan loss reserve to total loans	0.33%	0.13%	(20bp)	0.15%	(17bp)
Cost of risk	0.08%	0.12%	4bp	0.11%	3bp
Capital ratios					
Common Equity Tier 1 ("CET1") ratio	12.7%	13.5%		15.3%	
Regulatory leverage ratio	4.6%	4.9%		5.5%	
Capital as %age deposits	8%	8%		10%	
Capital as %age of total assets	6%	6%		7%	
Total assets	£19,135m	£13,094m	46%	£16,355m	17%

Customer accounts have increased from 1,217,000 on 31 December 2017 to 1,418,000 at 30 June 2018

Customer loans:	Customer deposits:	Number of stores[2]:
£12,013m	£13,736m	56

1. Underlying profit before tax excludes Listing Share Awards, the FSCS levy (included when reporting on a full year basis), impairment of property, plant & equipment ("PPE") and intangible assets, and costs relating to the RBS alternative remedies package application
2. 56 stores at 30 June 2018; our 57th store in Southampton opened on 20 July 2018.

Business and financial review

We are delighted to report our results for the first six months of 2018. Once again this has been another exceptional period of growth driven by the strength of our model and our focus on the integration of stores and technology to create FANS.

Our continued investment has helped to deliver a statutory profit before tax of £20.8 million for the first six months of 2018, quadruple the same period last year and already greater than our full year 2017 profit.

Income statement review

Summary income statement	Half year to 30 June 2018 £'million	Half year to 30 June 2017 £'million	Growth
Net interest income	156.3	107.4	
Fee, commission and other income	28.9	22.3	
Net gains on sale of investment securities	4.6	1.3	
Total income	189.8	131.0	45%
Operating expenses	(141.1)	(105.5)	34%
Depreciation and amortisation	(20.5)	(15.9)	
Impairment of property, plant & equipment	(0.6)	-	
Costs relating to RBS alternative remedies application	(1.3)	-	
Listing Share Awards	(0.6)	(0.7)	
FSCS levy	(0.8)	(0.8)	
Credit impairment charges	(4.1)	(3.7)	
Profit before tax	20.8	4.4	371%
Taxation	(5.6)	(1.3)	
Profit after tax	15.2	3.1	389%

Total operating income increased 45% to £189.8 million (six months to 30 June 2017: £131.1 million) driven by strong lending volumes and supported by an increase in the loan to deposit ratio which rose to 87% as at 30 June 2018 (79% at 30 June 2017).

Cost of deposits remained flat at 0.57% in the six months to 30 June 2018 (0.57% six months to 30 June 2017) despite the base rate rise in November 2017.

Customer net interest margin increased to 2.22% (six months to 30 June 2017: 2.17%) reflecting an increased loan to deposit ratio. We note that the market has been and is expected to remain competitive on lending yields. Net interest margin for the six months to 30 June 2018 was 1.85% (six months to 30 June 2017: 1.97%) reflecting increased drawings from the Term Funding Scheme.

Operating expenses rose by 34% reflecting significant investment in technology, stores and colleagues as we build the bank for the long term. The biggest driver of cost growth was people costs as we created c.400 new jobs and continued to invest in our culture. This was reflected in being named in Glassdoor's "2018 Best Places to Work". We have also incurred costs associated with regulatory projects and our bid for the RBS alternative resolutions fund (separately disclosed in our income statement).

Balance sheet review

Summary balance sheet	30 June 2018	31 December 2017	Growth
Assets	**£'million**	**£'million**	
Cash and balances with the Bank of England	1,994	2,112	
Loans and advances to banks	89	100	
Loans and advances to customers	12,013	9,620	25%
Investment securities	4,370	3,915	
Property, plant and equipment	356	328	
Intangible assets	176	148	
Other assets	137	132	
Total assets	19,135	16,355	17%
Liabilities			
Deposits from customers	13,736	11,669	18%
Deposits from banks	3,801	3,321	
Debt securities	249	-	
Other liabilities	253	269	
Total liabilities	18,039	15,259	
Total shareholders' equity	1,096	1,096	

We continue to be focussed on diversified deposit growth in order to fund high quality customer loans. Deposits from customers were £13,736 million at 30 June 2018 up 18% since 31 December 2017. Deposits from commercial customers now represent 54% (31 December 2017: 53%) of deposits and current account deposits represent 31% of the book (31 December 2017: 32%).

This increase in deposits enabled us to fund lending growth. Loans and advances to customers have increased 25% to £12,013 million (31 December 2017: £9,620 million) driven primarily through organic lending. In addition we purchased a portfolio of UK mortgages for total consideration of £523 million in March 2018. The purchased portfolio consists predominantly of seasoned mortgages and has a similar credit risk profile to our existing loan book.

We drew down a further £480m from the TFS before it closed in February. Our business model continues to be primarily that of a deposit-led bank – with more deposits than loans.

During the six months to June 2018, property, plant and equipment increased by 9% reflecting our continued investment in stores. During the period we opened our 56th store in Watford followed by our 57th in Southampton in July. We are on track to open a further 10 stores in 2018, with eight already in build, and we have a pipeline of 20 further sites. In 2018 we have continued to expand our digital infrastructure. We launched our developer portal for open banking; built in collaboration with Apigee (Google), this enables third-parties to build new and innovative services on top of our platform using APIs, creating more choice and opportunities for customers. Our award winning current account opening online, named Retail Banker's 2018 "Best Digital Onboarding Strategy", continues apace with c.70% of accounts opened around the existing store network.

The credit quality of our lending book remains high, with a cost of risk of 0.08% at 30 June 2018, compared to 0.12% for the same period last year. On 1 January 2018 the Group adopted IFRS 9. This resulted in an increase in credit impairment provisions of £22.7 million as we moved from an incurred loss model for calculating impairments to an expected loss model. The model assumptions set out in our 2017 Annual

Report and Accounts continue to be applied. We have not noted a significant increase in our cost of risk as a result of adopting IFRS 9, although we do expect to see increased volatility going forward.

Capital structure

We are committed to maintaining a strong capital base under both existing and future regulatory requirements. On 18 June 2018 the Group raised £250 million of subordinated Tier 2 debt which provides additional regulatory capital in order to help facilitate growth. We intend to support further growth through a proposed equity capital raise announced upon release of this report.

Capital ratios remain above regulatory requirements. Common Equity Tier 1 Capital ("CET1") as a percentage of risk weighted assets is 12.7% as at 30 June 2018 exceeding our Tier 1 regulatory minimum of 9.7%[1]. Our total capital ratio at 30 June 2018 was 16.2%, in excess of our current regulatory minimum of 12.1%[1]. The Regulatory Leverage ratio was 4.6%.

In the medium term we have the opportunity to achieve greater capital efficiency through applying an advanced internal ratings based ("AIRB") to calculating credit risk capital requirements. Our AIRB application for residential mortgages was submitted earlier in the year, with transition expected in the second half of 2019.

Going concern

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

Looking ahead

As we approach our eighth birthday we celebrate yet another AMAZEING year. Looking ahead we expect to maintain momentum by continuing to provide a credible alternative to the incumbent banks. This includes submitting our bid for the RBS alternative remedies package which will help accelerate our offering to small and medium sized businesses, an area of the market which remains underserved.

We will be continuing to invest in the customer experience through the opening of a further 10 stores in 2018 in addition to the delivery of new digital and technological capabilities starting with the launch of our AI-powered money management service 'Insights', and "walk out trading" enabling businesses to start accepting card payments in a matter of hours of account opening.

Our unrelenting commitment to meeting the digital and physical needs of our customers and our unparalleled culture will ensure we continue to generate FANS in record numbers. This will in turn ensure our deposits and low risk lending continue to grow delivering sustained increases in profitability.

Craig Donaldson
Chief Executive Officer
24 July 2018

[1] Regulatory minimums of 9.7% and 12.1% are based on current capital requirements excluding any confidential PRA buffer, if applicable.

Principal risks and uncertainties

There has been no significant change to our business model, risk management framework or risk appetite during the six month period ended 30 June 2018.

A detailed description of the principal risks and uncertainties to which the Group is exposed, along with the Group's approach to mitigating these risk, is set out in the Risk Factors and Management on pages 30 to 37 of the 2017 Annual Report and Accounts. These risks include:

- strategic risk - the risk that Metro Bank fails to achieve short and long term business objectives;
- 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 factors, 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 Group 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; and
- 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.

During the six months to 30 June 2018, the Group has identified one new principal risk that will impact the remaining six months of the year, namely:

- model risk – the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports, which can lead to financial loss, poor business and strategic decisions, or damage to a bank's reputation.

The Board has ultimate responsibility for setting the Group'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 Group 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 Group's objectives within risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of the Group'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 Group's risk governance and management, and also assists the Board in fostering a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group'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 Group'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 Group 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 has been prepared in accordance with IAS 34 'Interim Financial Reporting';
(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events and their impact 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 4.2.8R (disclosure of related parties' transactions and changes therein).

On behalf of the Board

Craig Donaldson
Chief Executive Officer
24 July 2018

David Arden
Chief Financial Officer
24 July 2018

Independent review report to Metro Bank PLC

Report on the Interim Financial Statements

Our conclusion

We have reviewed Metro Bank Plc's interim financial statements (the "interim financial statements") in the interim report of Metro Bank Plc for the 6 month period ended 30 June 2018. 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 Guidance and Transparency Rules sourcebook 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 2018;
- 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 Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 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 Guidance and Transparency Rules sourcebook 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 Guidance and Transparency Rules sourcebook 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, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
London
24 July 2018

Condensed consolidated statement of comprehensive income

For the half year to 30 June 2018

	Note	Half year to 30 June 2018 £'million	Half year to 30 June 2017 £'million
Interest income	2	**202.2**	135.7
Interest expense	2	**(45.9)**	(28.3)
Net interest income		**156.3**	107.4
Fee and commission income		**17.4**	13.7
Net gains on sale of investment securities		**4.6**	1.3
Other income		**11.5**	8.6
Total income		**189.8**	131.0
Operating expenses		**(141.1)**	(105.5)
Depreciation and amortisation	7, 8	**(20.5)**	(15.9)
Impairment of property, plant and equipment	7	**(0.6)**	-
Costs relating to RBS alternative remedies package application		**(1.3)**	-
Listing Share Awards		**(0.6)**	(0.7)
FSCS levy		**(0.8)**	(0.8)
Total operating expenses		**(164.8)**	(123.0)
Credit impairment charges		**(4.1)**	(3.7)
Profit before tax		**20.8**	4.4
Taxation	3	**(5.6)**	(1.3)
Profit for the period		**15.2**	3.1
Other comprehensive income for the period			
Items which will be reclassified subsequently to profit or loss where specific conditions are met:			
FVOCI/available for sale investment securities (net of tax):			
- fair value gains		**3.1**	1.5
- fair value gains transferred to the income statement on disposal		**(4.6)**	(1.3)
Total other comprehensive income		**(1.5)**	0.2
Total comprehensive income for the period		**13.7**	3.3
Earnings per share			
Basic earnings per share	10	**17.1 pence**	3.9 pence
Diluted earnings per share	10	**16.7 pence**	3.8 pence

Condensed consolidated balance sheet

As at 30 June 2018

	Note	30 June 2018 £'million	31 December 2017 £'million
Assets			
Cash and balances with the Bank of England		**1,994**	2,112
Loans and advances to banks		**89**	100
Loans and advances to customers	4	**12,013**	9,620
FVOCI/Available for sale investment securities[1]	6	**779**	361
Held at amortised cost/Held to maturity investment securities[2]	6	**3,591**	3,554
Property, plant and equipment	7	**356**	328
Intangible assets	8	**176**	148
Prepayments and accrued income		**58**	52
Deferred tax asset	3	**52**	54
Other assets		**27**	26
Total assets		**19,135**	16,355
Liabilities			
Deposits from customers		**13,736**	11,669
Deposits from central banks[3]		**3,801**	3,321
Debt securities	5	**249**	-
Repurchase agreements		**90**	121
Other liabilities		**162**	148
Total liabilities		**18,038**	15,259
Equity			
Called up share capital	9	**-**	-
Share premium account	9	**1,304**	1,303
Retained earnings		**(222)**	(219)
Other reserves		**15**	12
Total equity		**1,097**	1,096
Total equity and liabilities		**19,135**	16,355

1. Figure as at 30 June 2018 comprises of investment securities held at fair value through other compressive income (FVOCI) following the introduction of IFRS 9 on 1 January 2018. The 31 December 2017 comparator comprises of investment securities held as available for sale under IAS 39.
2. Figure as at 30 June 2018 comprises of investment securities held at amortised cost following the introduction of IFRS 9 on 1 January 2018. The 31 December 2017 comparator comprises of investment securities held to maturity under IAS 39.
3. Deposits from central banks comprises solely of amounts drawn down under the Bank of England's Term Funding Scheme ("TFS").

The accounting policies, notes and information on pages 16 to 31 form part of the financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 24 July 2018 and were signed on its behalf by:

Vernon W. Hill II	Craig Donaldson	David Arden
Chairman	**Chief Executive Officer**	**Chief Financial Officer**

Condensed consolidated cash flow statement

For the half year to 30 June 2018

	Note	Half year to 30 June 2018 £'million	Half year to 30 June 2017 £'million
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:			
Profit before tax		**21**	4
Adjustments for:			
Impairment of property, plant & equipment	7	**1**	-
Depreciation and amortisation	7, 8	**21**	16
Share option award charges		**2**	2
Gain on sale of securities and fair value gains on derivatives		**(5)**	(1)
Accrued interest on and amortisation of investment securities		**(6)**	(2)
Changes in operating assets		**(2,399)**	(1,877)
Changes in operating liabilities		**2,526**	3,029
Net cash inflows from operating activities		**161**	1,171
Cash flows from investing activities			
Sales of investment securities		**701**	133
Purchase of investment securities		**(1,165)**	(541)
Purchase of property, plant and equipment	7	**(38)**	(42)
Purchase and development of intangible assets	8	**(38)**	(31)
Net cash outflows from investing activities		**(540)**	(481)
Cash flows from financing activities			
Debt securities issued (net of costs)	5	**249**	-
Shares issued (through exercise of share options)	9	**1**	-
Net cash inflows from financing activities		**250**	-
Net increase/(decrease) in cash and cash equivalents		**(129)**	690
Cash and cash equivalents at start of period		**2,212**	500
Cash and cash equivalents at end of period		**2,083**	1,190

Profit before tax includes:

Interest received		**202**	136
Interest paid		**(45)**	(28)

Cash and cash equivalent comprise of:

Cash and balances with the Bank of England		**1,994**	1,114
Loans and advances to banks		**89**	76
Cash and cash equivalents at end of period		**2,083**	1,190

Condensed consolidated statement of changes in equity

For the half year to 30 June 2018

	Note	Share capital £'million	Share premium account £'million	Retained earnings £'million	Available for sale reserve £'million [1]	FVOCI reserve £'million [1]	Share option reserve £'million	Total equity £'million
Balance at 31 December 2017		**-**	**1,303.5**	**(219.4)**	**(4.4)**		**16.2**	**1,095.9**
IFRS 9 transition adjustments (net of tax)	1	**-**	**-**	**(17.4)**	**4.4**	**0.9**	**-**	**(12.1)**
Balance at 1 January 2018		**-**	**1,303.5**	**(236.8)**	**-**	**0.9**	**16.2**	**1,083.8**
Net profit for the year		**-**	**-**	**15.2**		**-**	**-**	**15.2**
Other comprehensive income, net of tax, relating to available for sale investments		**-**	**-**	**-**		**(1.5)**	**-**	**(1.5)**
Total comprehensive income		**-**	**-**	**15.2**		**(1.5)**	**-**	**13.7**
Shares issued		**-**	**0.5**	**-**		**-**	**-**	**0.5**
Share option awards at fair value		**-**	**-**	**-**		**-**	**(1.1)**	**(1.1)**
Balance at 30 June 2018		**-**	**1,304.0**	**(221.6)**		**(0.6)**	**15.1**	**1,096.9**
Balance at 1 January 2017		-	1,027.7	(230.2)	(3.5)		10.6	804.6
Net profit for the year		-	-	3.1	-		-	3.1
Other comprehensive income, net of tax, relating to available for sale investments		-	-	-	0.2		-	0.2
Total comprehensive income		-	-	3.1	0.2		-	3.3
Share issue		-	0.4	-	-		-	0.4
Share option awards at fair value		-	-	-	-		3.3	3.3
Balance at 30 June 2017		-	1,028.1	(227.1)	(3.3)		13.9	811.6
Note		9	9					

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

Notes to the financial statements

1. Basis of preparation and accounting policies

1.1 General information

Metro Bank ("our" or "we") 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.

1.2 Basis of preparation

The condensed consolidated interim financial statements of Metro Bank and its subsidiaries ("the Group") for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 24 July 2018.

These condensed consolidated interim financial statements for the six months ended 30 June 2018 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 our Annual Report and Accounts for the year ended 31 December 2017 which is available on our website.

The comparative financial information for the year ended 31 December 2017 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 interim financial statements. In reaching this assessment, the Directors have considered projections for our 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.

1.3 Accounting policies

The accounting policies and methods of computation are consistent with those applied in our 2017 Annual Report and Accounts, other than the following.

Adoption of IFRS 9

On 1 January 2018 we adopted IFRS 9 ("Financial Instruments") which 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. For full details of the adjustments made on transition to IFRS 9, please refer to note 30 of our 2017 Annual Report and Accounts. No changes have been made to the preliminary assessment discussed in that note.

Adoption of IFRS 15

On 1 January 2018 we adopted IFRS 15 ("Revenue from Contracts with Customer"). The majority of the Group's income is accounted for under other accounting standards and as such there was no significant impact to the financial statements upon transition. Additionally, no changes to the accounting policies as disclosed in the 2017 Annual Report and Accounts have been made.

Debt securities in issue

On 18 June 2018 we issued £250 million of subordinate debt securities. These are accounted for in line with our current accounting policy for financial liabilities. Recognition is initially at fair value, being the proceeds less transaction costs. Subsequently the debt securities have been measured at amortised cost using the effective interest method.

1.4 Future accounting developments

On 1 January 2019 we will adopt IFRS 16 ("Leases"). This provides guidance on the classification, recognition and measurement of leases by providing a single lessee accounting model. Upon adoption lessees will 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.

Preparations for the implementation of IFRS 16 are well advanced and we are currently in the process of implementing the relevant internal controls and key system functionality changes required. The net impact on the balance sheet and income statement is not expected to be material. We will provide more details on specific accounting policy implementation decisions in our full year report.

1.5 Critical accounting judgements and estimates

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 2017, although we note that Impairment losses on loans and advances to customers are now modelled by applying the requirements of IFRS 9. The key assumptions used in our IFRS 9 models were described in Note 30 to the 2017 Annual Report & Accounts and include:

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

1.6 Operating segments

We provide retail and corporate banking services. The Board considers the results of the Group as a whole when assessing the performance of the business and allocating resources. Accordingly we have a single operating segment.

We operate solely in the UK and as such no geographical analysis is required.

2 Net interest income

Interest income

£'million	Half year to 30 June 2018	Half year to 30 June 2017
Loans and advances to customers	**164.9**	108.4
Investment securities	**37.3**	27.3
Total interest income	**202.2**	135.7

Interest expense

£'million	Half year to 30 June 2018	Half year to 30 June 2017
Interest on customer accounts	**31.8**	22.6
Interest on TFS drawings	**9.2**	1.5
Interest on repurchase agreements	**0.3**	0.8
Interest on debt securities in issue	**0.2**	-
Other	**4.4**	3.4
Total interest expense	**45.9**	28.3

3 Taxation

Tax charge for the period

The components of income tax expense for the six months ended 30 June 2018 and 2017 are:

£'million	Half year to 30 June 2018	Half year to 30 June 2017
Total current tax charge	**1.7**	0.3
Deferred tax:		
Origination and reversal of temporary differences	**3.8**	1.4
Effect of changes in tax rates	**0.1**	(0.3)
Adjustment in respect of prior periods	**-**	(0.1)
Total deferred tax charge	**3.9**	1.0
Total tax charge	**5.6**	1.3

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 for the six months ended 30 June 2018 and 2017 is as follows:

	30 June 2018 £'million	Effective tax rate %	30 June 2017 £'million	Effective tax rate %
Profit before tax	**20.8**		4.4	
Tax expense at statutory income tax rate of 19% (2017: 19.25%)	**4.0**	**19%**	0.9	19.25%
Tax effects of:				
Banking Surcharge	**0.2**	**1%**	-	0%
Non-deductible expenses - depreciation on non-qualifying fixed assets	**1.2**	**6%**	1.1	25%
Non-deductible expenses - other	**0.3**	**2%**	0.2	4%
Share based payments	**(0.4)**	**(2%)**	(0.4)	(9%)
Taxable gains on financial instruments	**0.2**	**1%**	-	0%
Adjustment in respect of prior years	**-**	**0%**	(0.1)	(2%)
Effect of changes in tax rates	**0.1**	**0%**	(0.3)	(7%)
Total tax charge	**5.6**	**27%**	1.3	30%

3 Taxation (continued)

Effective tax rate

The effective tax rate for the period is 27.2% (Six months to 30 June 2017: 29.9%).

The effective tax rate for the year excluding the effect of changes in tax rates is 26.8% (Six months to 30 June 2017: 29.9%).

Deferred Tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted.

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

2018	**Unused tax losses £'million**	**Investment securities & impairments £'million**	**Share based payments £'million**	**Property, plant & equipment £'million**	**Intangible assets £'million**	**Total £'million**
Deferred tax assets	**54.8**	**6.7**	**8.9**	**-**	**0.3**	**70.7**
Deferred tax liabilities	**-**	**(2.7)**	**(0.2)**	**(9.2)**	**(6.9)**	**(19.0)**
Deferred tax assets (net)	**54.8**	**4.0**	**8.7**	**(9.2)**	**(6.6)**	**51.7**
At 31 December 2017	**56.9**	**(0.1)**	**10.6**	**(7.7)**	**(6.0)**	**53.7**
IFRS 9 transition adjustments	**-**	**3.6**	**-**	**-**	**-**	**3.6**
At 1 January 2018	**56.9**	**3.5**	**10.6**	**(7.7)**	**(6.0)**	**57.3**
Income statement	**(2.1)**	**(0.3)**	**0.6**	**(1.5)**	**(0.6)**	**(3.9)**
Other comprehensive income	**-**	**0.8**	**-**	**-**	**-**	**0.8**
Equity	**-**	**-**	**(2.5)**	**-**	**-**	**(2.5)**
At 30 June 2018	**54.8**	**4.0**	**8.7**	**(9.2)**	**(6.6)**	**51.7**

2017	**Unused tax losses** £'million	**Investment securities & impairments** £'million	**Share based payments** £'million	**Property, plant & equipment** £'million	**Intangible assets** £'million	**Total** £'million
Deferred tax assets	60.9	0.7	9.4	-	0.3	71.3
Deferred tax liabilities	-	(1.6)	(0.5)	(5.3)	(6.0)	(13.4)
Deferred tax assets (net)	60.9	(0.9)	8.9	(5.3)	(5.7)	57.9
At 1 January 2017	61.4	(1.7)	6.2	(4.5)	(5.1)	56.3
Income statement	(0.2)	-	0.6	(0.8)	(0.6)	(1.0)
Other comprehensive income	(0.3)	0.8	-	-	-	0.5
Equity	-	-	2.1	-	-	2.1
At 30 June 2017	60.9	(0.9)	8.9	(5.3)	(5.7)	57.9

4 Loans and advances to customers

£'million	**30 June 2018**	31 December 2017
Gross Loans and advances to customers	**12,053**	9,635
Less: allowance for impairment	**(40)**	(15)
Net Loans and advances to customers	**12,013**	9,620
Amounts include:		
Repayable on demand or at short notice	**206**	160

Loans and advances to customers by category

£'million	**30 June 2018**	31 December 2017
Overdraft	**81**	86
Credit cards	**10**	9
Term loans	**168**	122
Total consumer and other	**259**	217
Residential mortgages	**7,889**	6,231
Total retail lending	**8,148**	6,448
Overdraft	**183**	140
Credit cards	**2**	2
Term loans	**3,446**	2,816
Asset and invoice finance	**274**	229
Total commercial lending	**3,905**	3,187
Total loans to customers	**12,053**	9,635

Collateral

We hold collateral against loans and advances to customers principally in the form of mortgages over residential and commercial real estate and guarantees which we have the ability to call on in the event of default of the borrower. The table below details our gross credit risk exposure and the effects of collateral. The value of collateral has been limited to the principal amount outstanding to eliminate effects of over-collateralisation.

	30 June 2018		
£'million	**Gross exposure**	**Collateral**	**Net exposure**
Retail-residential mortgages	**7,889**	**(7,843)**	**46**
Retail-consumer & other	**259**	**-**	**259**
Commercial	**3,905**	**(3,079)**	**826**
Loans and advances to customers	**12,053**	**(10,922)**	**1,131**

4 Loans and advances to customers (continued)

£'million	Gross exposure	Collateral	Net exposure
	31 December 2017		
Retail-residential mortgages	6,231	(6,153)	78
Retail-consumer & other	217	-	217
Commercial	3,187	(2,502)	685
Loans and advances to customers	9,635	(8,655)	980

Residential mortgage lending

The average debt to value ("DTV") of the residential mortgage book is 59% (31 December 2017: 60%).

An analysis of residential mortgages by DTV is set out below:

DTV ratio	**30 June 2018 £'million**	31 December 2017 £'million
Less than 50%	**2,234**	1,719
51-60%	**1,497**	1,113
61-70%	**1,728**	1,425
71-80%	**1,454**	1,136
81-90%	**831**	668
91-100%	**121**	115
More than 100%	**24**	55
Total	**7,889**	6,231

A geographical analysis of the location of residential mortgages is set out below:

	30 June 2018		31 December 2017	
	Gross balance £'million	**Concentration %**	Gross balance £'million	Concentration %
Greater London	**3,591**	**46**	2,900	47
South east	**1,790**	**23**	1,395	22
South west	**576**	**7**	424	7
East of England	**460**	**6**	355	6
North west	**428**	**5**	341	5
West Midlands	**291**	**4**	215	3
Yorkshire and the Humber	**233**	**3**	188	3
East Midlands	**232**	**3**	177	3
Wales	**140**	**2**	105	2
North east	**97**	**1**	78	1
Northern Ireland	**31**	**0**	32	1
Scotland	**20**	**0**	21	0
Total	**7,889**	**100**	6,231	100

4 Loans and advances to customers (continued)

Commercial lending

We monitor concentrations of credit risk by sector for commercial term loans exposure. Our risk appetite is set at the beginning of every year and monitored by a committee of the Board.

	30 June 2018		31 December 2017	
	Gross balance £'million	**Concentration %**	Gross balance £'million	Concentration %
Real estate (rent, buy and sell)	**2,293**	**67**	1,704	61
Legal, Accountancy & Consultancy	**354**	**11**	304	11
Health & Social Work	**242**	**7**	214	7
Hospitality	**210**	**6**	185	7
Retail	**84**	**2**	84	3
Real estate (management of)	**80**	**2**	104	4
Construction	**59**	**2**	69	2
Recreation, cultural and sport	**16**	**1**	18	1
Investment and unit trusts	**12**	**0**	21	1
Education	**6**	**0**	4	0
Real estate (development)	**6**	**0**	26	1
Other	**84**	**2**	83	2
Total commercial term loans	**3,446**	**100**	2,816	100

The average debt to value ("DTV") of the commercial term loan book is 61% (31 December 2017: 58%).

	30 June 2018	31 December 2017
Total commercial lending (£'million)	**3,905**	3,187
Percentage of total lending (%)	**32%**	33%
Value of top ten commercial exposures (£'million)	**280**	250
Top ten commercial exposures as a percentage of total commercial lending (%)	**7%**	8%

4 Loans and advances to customers (continued)

Non-performing loans

	30 June 2018			31 December 2017		
	NPLs £'million	NPL ratio	Cost of risk	NPLs £'million	NPL ratio	Cost of risk
Retail-residential mortgages	**8.0**	**0.10%**	**0.03%**	9.2	0.15%	0.03%
Retail-consumer & other	**8.2**	**3.19%**	**2.03%**	6.0	2.78%	2.03%
Commercial	**4.0**	**0.10%**	**0.13%**	11.0	0.35%	0.13%
Total	**20.2**	**0.17%**	**0.08%**	26.2	0.27%	0.11%

Expected credit losses

The following tables reconcile the opening and closing balances and expected credit loss by stage for the six months to 30 June 2018. Reconciling items include:

- Transfers between stages, which are presumed to occur before any corresponding remeasurement of the allowance;
- Net lending which comprises of new financial assets originated or purchased during the period, financial assets derecognised, interest accrued and repayments made; and
- Other movements which comprises primarily of refreshing the data and model assumptions as well as forward looking information.

4 Loans and advances to customers (continued)

Retail - Residential mortgages

£'million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Loss allowance Stage 1	Stage 2	Stage 3	POCI*	Total	Net carrying amount Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**6,065.1**	**129.1**	**32.8**	**4.4**	**6,231.4**	**(1.4)**	**(3.0)**	**(4.8)**	**(0.7)**	**(9.9)**	**6,063.7**	**126.1**	**28.0**	**3.7**	**6,221.5**
Transfers in/(out) to stage 1	70.1	(68.2)	(1.9)	-	-	(0.6)	0.4	0.2	-	-	69.5	(67.8)	(1.7)	-	-
Transfers in/(out) to stage 2	(77.7)	77.8	(0.1)	-	-	0.1	(0.1)	-	-	-	(77.6)	77.7	(0.1)	-	-
Transfers in/(out) to stage 3	(6.1)	(4.7)	10.8	-	-	-	0.4	(0.4)	-	-	(6.1)	(4.3)	10.4	-	-
Net lending	1,659.9	1.2	(4.5)	0.6	**1,657.2**	(0.2)	-	0.3	(0.1)	-	1,659.7	1.2	(4.2)	0.5	**1,657.2**
Other movements	-	-	-	-	-	1.1	(0.3)	(0.2)	0.6	**1.2**	1.1	(0.3)	(0.2)	0.6	**1.2**
Balance at 30 June 2018	**7,711.3**	**135.2**	**37.1**	**5.0**	**7,888.6**	**(1.0)**	**(2.6)**	**(4.9)**	**(0.2)**	**(8.7)**	**7,710.3**	**132.6**	**32.2**	**4.8**	**7,879.9**

Retail – Consumer & other

£'million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Loss allowance Stage 1	Stage 2	Stage 3	POCI	Total	Net carrying amount Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**190.9**	**19.6**	**5.9**	**-**	**216.4**	**(1.1)**	**(10.5)**	**(5.4)**	**-**	**(17.0)**	**189.8**	**9.1**	**0.5**	**-**	**199.4**
Transfers in/(out) to stage 1	5.4	(5.3)	(0.1)	-	-	(0.5)	0.4	0.1	-	-	4.9	(4.9)	-	-	-
Transfers in/(out) to stage 2	(1.8)	1.9	(0.1)	-	-	-	(0.1)	0.1	-	-	(1.8)	1.8	-	-	-
Transfers in/(out) to stage 3	(0.6)	(1.7)	2.3	-	-	0.1	1.1	(1.2)	-	-	(0.5)	(0.6)	1.1	-	-
Net lending	44.1	(1.5)	(0.3)	-	**42.3**	(0.3)	0.2	0.2	-	**0.1**	43.8	(1.3)	(0.1)	-	**42.4**
Other movements	-	-	-	-	-	0.4	1.2	(0.9)	-	**0.7**	0.4	1.2	(0.9)	-	**0.7**
Balance at 30 June 2018	**238.0**	**13.0**	**7.7**	**-**	**258.7**	**(1.4)**	**(7.7)**	**(7.1)**	**-**	**(16.2)**	**236.6**	**5.3**	**0.6**	**-**	**242.5**

Commercial

£'million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Loss allowance Stage 1	Stage 2	Stage 3	POCI	Total	Net carrying amount Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2018	**3,074.8**	**95.0**	**16.3**	**0.7**	**3,186.8**	**(5.1)**	**(1.4)**	**(2.5)**	**(0.2)**	**(9.1)**	**3,069.7**	**93.6**	**13.8**	**0.5**	**3,177.6**
Transfers in/(out) to stage 1	68.0	(67.9)	(0.1)	-	-	(1.0)	0.8	0.2	-	-	67.0	(67.1)	0.1	-	-
Transfers in/(out) to stage 2	(16.1)	16.1	-	-	-	0.1	(0.1)	-	-	-	(16.0)	16.0	-	-	-
Transfers in/(out) to stage 3	(0.8)	(4.0)	4.8	-	-	-	-	-	-	-	(0.8)	(4.0)	4.8	-	-
Net lending	726.5	1.4	(9.3)	0.1	**718.7**	(1.6)	(0.1)	(0.3)	-	**(2.0)**	724.9	1.3	(9.6)	0.1	**716.7**
Other movements	-	-	-	-	-	(0.8)	(1.5)	(2.0)	0.2	**(4.1)**	(0.8)	(1.5)	(2.0)	0.2	**(4.1)**
Balance at 30 June 2018	**3,852.4**	**40.6**	**11.7**	**0.8**	**3,905.5**	**(8.4)**	**(2.3)**	**(4.6)**	**-**	**(15.3)**	**3,844.0**	**38.3**	**7.1**	**0.8**	**3,890.2**

*Purchased or originated credit impaired

5 Debt securities

On the 18 June 2018 we issued £250 million of subordinated debt securities to provide Tier 2 capital to support future growth.

Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
18th June 2018	GBP	250	5.50%	26/06/2023	26/06/2028

£'million	30 June 2018	30 June 2017
Amount issued	**250.0**	-
Costs associated with debt raise	**(1.4)**	
Accrued interest payable	**0.2**	-
Total carrying amount	**248.8**	-

6 Investment securities

£'million	Level 1	Level 2	Total
As at 30 June 2018 (FVOCI)	**708**	**71**	**779**
As at 31 December 2017 (available for sale)	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
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).

At 30 June 2018, financial investments classified held at amortised cost (30 June 2017: held to maturity) were as follows:

£'million	Carrying amount	Fair value
As at 30 June 2018 (held at amortised cost)	**3,591**	**3,608**
As at 31 December 2017 (held to maturity)	3,554	3,590

7 Property, plant and equipment

£'million	Investment property	Freehold land & buildings	Leasehold improvements	Fixtures fittings & equipment	IT hardware	Total
Cost or valuation						
1 January 2018	**10.9**	**135.5**	**198.5**	**26.4**	**34.8**	**406.1**
Additions	**-**	**7.5**	**25.4**	**4.2**	**1.3**	**38.4**
Disposals	**-**	**-**	**-**	**(0.1)**	**(0.3)**	**(0.4)**
Transfers	**-**	**4.7**	**(4.7)**	**-**	**-**	**-**
30 June 2018	**10.9**	**147.7**	**219.2**	**30.5**	**35.8**	**444.1**
Accumulated depreciation						
1 January 2018	**0.1**	**5.6**	**29.6**	**14.4**	**28.9**	**78.6**
Charge for the period	**0.1**	**1.0**	**4.4**	**2.2**	**2.0**	**9.7**
Disposals	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**
Transfers	**-**	**1.0**	**(1.0)**	**-**	**-**	**-**
Impairments	**-**	**-**	**0.5**	**0.1**	**-**	**0.6**
30 June 2018	**0.2**	**7.6**	**33.5**	**16.7**	**30.6**	**88.6**
Net book value at 30 June 2018	**10.7**	**140.1**	**185.7**	**13.8**	**5.2**	**355.5**
Cost or valuation						
1 January 2017	-	84.6	171.1	20.8	30.7	307.2
Additions	4.1	22.1	12.7	1.7	1.3	41.9
Disposals	-	-	-	(0.1)	-	(0.1)
Transfers	8.3	(8.3)	(0.2)	0.2	-	-
Other write offs	-	(0.1)	(0.2)	-	-	(0.3)
Reclassifications	-	(0.4)	(0.1)	-	-	(0.5)
30 June 2017	12.4	97.9	183.3	22.6	32.0	348.2
Accumulated depreciation						
1 January 2017	-	3.4	22.0	10.9	24.2	60.5
Charge for the period	-	0.5	4.2	1.8	2.3	8.8
Disposals	-	-	-	(0.1)	-	(0.1)
Transfers	-	(0.1)	0.1	-	-	-
30 June 2017	-	3.8	26.3	12.6	26.5	69.2
Net book value at 30 June 2017	12.4	94.1	157.0	10.0	5.5	279.0
Net book value at 31 December 2017	10.8	129.9	168.9	12.0	5.9	327.6

8 Intangibles

£'million	Goodwill	Customer contracts	Software	Total
Cost or valuation				
1 January 2018	**4.1**	**0.6**	**173.7**	**178.4**
Additions	**-**	**-**	**38.1**	**38.1**
30 June 2018	**4.1**	**0.6**	**211.8**	**216.5**
Accumulated amortisation				
1 January 2018	**-**	**0.3**	**29.9**	**30.2**
Charge for the period	**-**	**-**	**10.8**	**10.8**
30 June 2018	**-**	**0.3**	**40.8**	**41.0**
Net book value at 30 June 2018	**4.1**	**0.3**	**171.1**	**175.5**
Cost or valuation				
1 January 2017	4.1	0.6	101.8	106.5
Additions	-	-	31.3	31.3
Other write offs	-	-	-	-
Reclassification	-	-	1.5	1.5
30 June 2017	4.1	0.6	134.6	139.3
Accumulated amortisation				
1 January 2017	-	0.2	13.8	14.0
Charge for the period	-	-	7.1	7.1
Reclassification	-	-	0.3	0.3
30 June 2017	-	0.2	21.2	21.4
Net book value at 30 June 2017	4.1	0.4	113.4	117.9
Net book value at 31 December 2017	4.1	0.3	143.8	148.2

9 Share capital

As at 30 June 2018 we had 88.5 million ordinary shares of 0.0001 pence (31 December 2017: 88.5 million) in issue.

During the six months to 30 June 2018 we issued 61,000 ordinary shares all of which relate to the exercise of previously awarded share options.

Called up ordinary share capital (issued and fully paid)

£'million	**Half year to 30 June 2018**	Half year to 30 June 2017
At beginning of the period	**-**	-
Shares issued	**-**	-
At end of the period	**-**	**-**

Share premium

£'million	**Half year to 30 June 2018**	Half year to 30 June 2017
At beginning of the period	**1,303.5**	1,027.7
Shares issued	**0.5**	0.4
At end of the period	**1,304.0**	1,028.1

10 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 period.

	Half year to 30 June 2018	Half year to 30 June 2017
Earnings attributable to ordinary equity holders of Metro Bank (£'million)	**15.2**	3.1
Weighted average number of ordinary shares in issue (thousands)	**88,519**	80,379
Basic earnings per share (pence)	**17.1**	3.9

Diluted earnings per share has been calculated based on the same profit or loss attributable to ordinary equity holders of Metro Bank and weighted average number of ordinary shares in issue after the effect of adjustment for potential dilutive ordinary shares, which comprise share options granted to colleagues. Potential ordinary shares should only be treated as dilutive when their conversion to ordinary shares results in a reduction in earnings per share. The number of anti-dilutive share options excluded from the weighted average number of dilutive potential share for the six month period to 30 June 2018 is 1.0 million (30 June 2017: nil).

	Half year to 30 June 2018	Half year to 30 June 2017
Earnings attributable to ordinary equity holders of Metro Bank (£'million)	**15.2**	3.1
Weighted average number of ordinary shares in issue (thousands)	**90,590**	81,889
Diluted earnings per share (pence)	**16.7**	3.8

11 Fair value of financial instruments

The fair values of financial instruments are based on market prices, where available, or are estimated using other valuation techniques. Where financial instruments are short term in nature or re-price frequently, their 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).

£'million	Carrying value	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total fair value
30 June 2018					
Assets					
Cash and balances with the Bank of England	**1,994**	**-**	**-**	**1,994**	**1,994**
Loans and advances to banks	**89**	**-**	**-**	**89**	**89**
Loan and advances to customers	**12,013**	**-**	**-**	**12,558**	**12,558**
Investment securities	**4,370**	**1,196**	**3,192**	**-**	**4,388**
Liabilities					
Deposits from customers	**13,736**	**-**	**-**	**13,713**	**13,713**
Deposits from central banks	**3,801**	**-**	**-**	**3,801**	**3,801**
Debt securities in issue	**249**	**242**	**-**	**-**	**242**
Repurchase agreements	**91**	**-**	**-**	**90**	**90**
31 December 2017					
Assets					
Cash and balances with the Bank of England	2,112	-	-	2,112	2,112
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 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.

11 Fair value of financial instruments (continued)

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

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

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 in issue
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.

12 Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2018 that would materially affect the position of performance of the bank from those disclosed in Note 26 of our 2017 Annual Report and Accounts.

Architecture, design and branding services

Architecture, design and branding services are provided to the Group by InterArch, Inc., ("InterArch") a firm which is owned by Shirley Hill, the wife of Chairman Vernon W. Hill II. The cost of these services in the six months to 30 June 2018 was £2.8 million (six months to 30 June 2017: £2.0 million). In order to ensure that the terms of the InterArch arrangements are consistent with those that could be obtained from an independent third party, the contractual arrangements with InterArch are subject to an annual review by our Audit Committee using benchmarking reviews conducted by independent third parties. The balance owed to InterArch at 30 June 2018 was £0.5 million (30 June 2017: £0.1 million).

13 Post balance sheet events

There have been no material post balance sheet events.

END