



CHIEF FINANCIAL OFFICER'S STATEMENT

building a bank to last



Mike Brierley – Chief Financial Officer

Overview

We have had another year of phenomenal growth. For the first time, Metro Bank made a month-on-month profit in the fourth quarter of 2016, driven by a strong increase in revenue from continued growth in customer balances. As we open new stores, the beneficial effect of our network continues to grow, resulting in a 66% increase in our lending book and a 56% increase in deposits.

Deposits

	2016 £m	2015 £m	Change %
Customer deposits	7,950.6	5,107.7	56%
Customer accounts	915,000	655,000	40%
Average deposits per customer	£8,689	£7,798	11%
Loan to deposit ratio	74%	69%	–

Deposits from customers have increased by £2,843 million to £7,950.6 million (2015: £5,107.7 million) as we continue to expand our store network and build brand awareness. Our focus on customer service has attracted a diversified mix of low-cost sticky deposits from both new and existing FANS. Through our range of simple and fair products, our average deposits per customer have risen 11% to £8,689 (2015: £7,798).

The Group drew down £1,614 million from the Bank of England's Funding for Lending Scheme and Term Funding Schemes.

In line with the Bank's strategy, the loan to deposit ratio has risen to 74% (2015: 69%). We continue to be focused on deposit growth in order to fund high-quality loans.

Assets

	2016 £m	2015 £m	Change %
Cash and balances with the Bank of England	434.6	217.9	99%
Loans and advances to banks	65.8	64.3	2%
Loans and advances to customers	5,865.4	3,542.5	66%
Investment securities	3,226.7	1,999.8	61%
Other assets	464.8	323.5	44%
Total assets	10,057.3	6,148.0	64%

Total loans have increased by 66% to £5,865.4 million at 31 December 2016 (2015: £3,542.5 million), driven by growth in the Commercial and Business Lending teams, new stores and continued expansion of Metro Bank's residential mortgage offering.

The 10% year-on-year growth in credit impairment charges (to £7.5 million) is significantly lower than total lending growth. This is a reflection of our robust underwriting criteria and focus on relationship management. Overall, the credit quality of the book remains robust, with 88% (2015: 92%) secured by collateral.

Total income

	2016 £m	2015 £m	Change %
Net interest income	154.2	88.9	74%
Other income	40.9	31.3	31%
Total income	195.1	120.2	62%
Net interest margin	1.97%	2.00%	(3)bps

Further details on net interest income and other income are included on page 88.

Total income increased by £74.9 million, or 62%, to a record £195.1 million (2015: £120.2 million), reflecting strong loan growth across all of our lending books and the maintenance of a low-cost of deposits. Net interest margin reduced by 3bps due to lending margin compression, combined with lower yields on the investment portfolio and also the one-off lag from the reduction in base rate. We expect the net interest margin to increase in 2017 as the loan to deposit ratio rises, and this is reflected in our Q4 2016 net interest margin of 2.03%.

Metro Bank's other income consists primarily of fees and commissions totalling £22.2 million (2015: £15.7 million), earned through our range of Commercial and Retail Banking services.



Of this, £7.0 million was attributable to the rental of safe deposit boxes, an increase of 33% compared to 2015 (£5.3 million).

Operating expenses

	2016 £m	2015 £m	Change %
Operating expenses	207.6	170.0	22%
Cost:income ratio	106%	141%	–

Further details on operating costs are included in notes 6 and 7 to the financial statements.

Total operating costs increased by 22% to £207.6 million (2015: £170.0 million) as we continued to invest in our business to deliver customer service and convenience integrated across all our channels. People costs were the largest single contributor to costs, rising 25% to £93.2 million (2015: £74.4 million), to support growth, expanding our specialist support functions and adding eight new stores, as well as a 16% increase in occupancy costs to £26.1 million (2015: £22.6 million).

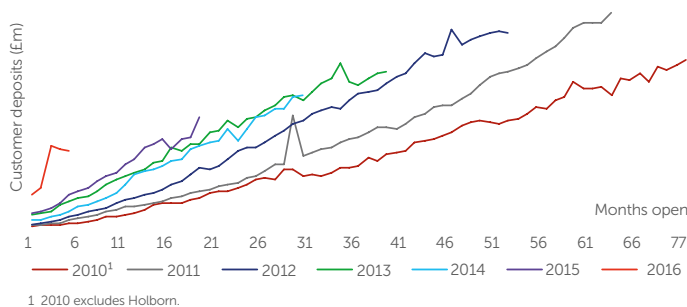
The cost:income ratio improved to 106% (2015: 141%) as the Group moves closer towards full-year profitability. This improvement has come through growth rather than cost-cutting, as we continue our investment in strengthening the capacity of our business and our customer offering.

Contribution from stores

As we have expanded, the contribution of new and existing stores has continued to increase. New stores open with higher deposits and grow faster as each annual cohort benefits from a more powerful network effect and organisational learnings.

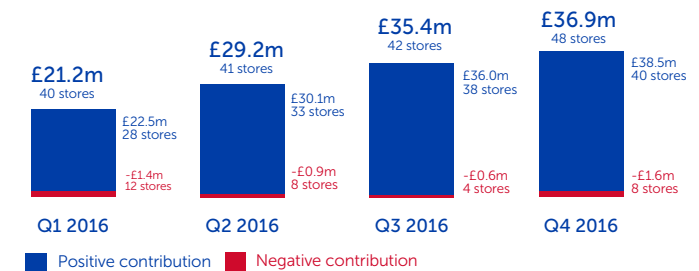
Comparative store deposit growth demonstrates that our growth continues year after year and is strong at 51% for stores over 12 months; 45% for stores open over 24 months; and 44% for stores open over 36 months.

AS ANNUAL COHORTS START AND GROW FASTER¹



Store contribution is an important measure in understanding the success of our model. At the end of 2016, 40 of the 48 stores were making positive contributions, including all stores that have been open more than 18 months.

STORE CONTRIBUTION INCREASES FOR NEW AND EXISTING STORES



New share issue

In March 2016, Metro Bank successfully completed a £400 million equity capital raise from existing and new shareholders at a price of £20 per share. This took the total amount of equity capital raised from shareholders since inception to over £1 billion. Metro Bank was admitted to the premium listing segment of the Official List and to trading on the Main Market of the London Stock Exchange on 10 March 2016.

Capital structure

	2016 £m	2015 £m	Change %
Common Equity Tier 1 (CET1) Capital	651.4	299.9	117.2%
Risk weighted assets (RWAs)	3,590.4	2,261.2	58.8%
CET1 ratio	18.1%	13.1%	500bps
Regulatory leverage ratio	6.5%	4.9%	160bps
Leverage	8.0%	6.6%	140bps

Capital is held by the Bank to protect depositors, cover inherent risks and provide a cushion in the event of a stress event. Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements. The £400 million capital raise enabled us to continue our growth trajectory through 2016; our CET1 ratio of 18.1% (2015: 13.1%) is well in excess of regulatory requirements.

Conclusion

Metro Bank has had a strong 2016, with the Group delivering a robust performance. Higher lending and deposit volumes and strong cost control, despite continued investment in technology, stores and colleague training, further improved the Bank's bottom line. Going forward, the Group is well positioned to deliver sustainable growth and profitability, based on a low-risk operating model, while maintaining our unique culture and focus on customer service and FAN creation.

Mike Brierley
Chief Financial Officer
2 March 2017