NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

1.1 General information

Metro Bank PLC ("the Company") together with its subsidiaries ("the Group") provides retail and corporate banking services in the UK and is a public limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006 (Registration number 6419578). The address of the registered office is One Southampton Row, London WC1B 5HA.

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.

1.2 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and the Company have the resources to continue in business for the foreseeable future.

In publishing the Parent Company financial statements here together with the Group financial statements, Metro Bank has taken advantage of the exemption in section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

1.3 Cash flow statement

The consolidated statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, impairment of property, plant and equipment and intangible assets, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method.

1.4 Changes in accounting policy and disclosures

As of the date of authorisation of the financial statements the following standards were in issue but not yet effective and have not been adopted early in these financial statements and are considered by management to have a material impact on the Group:

IFRS 9 "Financial Instruments", brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's ("IASB") project to replace IAS 39, and is effective for annual periods beginning on or after 1 January 2018. The key elements of the standard are as follows:

- Classification and measurement – IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured: (a) the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and (b) the contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).
- Impairment – the incurred loss model under IAS 39 is replaced with a new expected loss model. Impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. Risk of default and expected credit losses must incorporate forward-looking and macroeconomic information. Expected credit loss models will require more data and assumptions with impairment provisions potentially becoming more volatile.
- Hedge accounting – the new requirements align hedge accounting more closely with risk management. The revised standard also establishes a more principles-based approach to hedge accounting.

1. Accounting policies continued

Management is currently working on a formal project to:

- review the classification and measurement of financial instruments under the requirements of IFRS 9;
- develop and validate a set of IFRS 9 models for calculating expected credit losses on the Group's loan portfolios; and
- implement internal governance processes which are appropriate for IFRS 9.

A detailed timetable has been prepared to ensure that all credit loss models are developed and tested in advance of 1 January 2018, and that systems have been updated to report internally and externally under IFRS 9. The project is currently on track. The impact on the Group's balance sheet and income statement on adoption of IFRS 9 is being assessed.

IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. IFRS 16 requires contracts that IAS 17 classifies as operating leases to be brought onto the balance sheet, using the finance lease approach already applied under IAS 17. The new standard will replace IAS 17 "Leases" and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Group is currently reviewing the impact of IFRS 16.

IFRS 15 "Revenue from Contracts with Customers" is not considered to have a material impact on the Group.

1.5 Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is the Board of Directors.

The Board considers the results of the Group as a whole when assessing the performance of Group and allocating resources. Accordingly, the Group has a single operating segment.

The Group lends solely within the UK and, as such, no geographical analysis is required. Metro Bank is not reliant on any single customer.

1.6 Consolidation

The Group applies the acquisition method to account for business combinations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-Company transactions and balances are eliminated upon consolidation. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

These financial statements consolidate the results of the subsidiary companies set out in note 30.

1.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using pound Sterling, the currency of the UK, which is the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in pounds Sterling, which is the Group's presentation currency.

(b) Transactions and balances

Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss.

1.8 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right, by contract or custom, to sell or repledge the collateral; the counterparty liability is included in deposits from banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1. Accounting policies continued

1.9 Financial assets

The Group allocates financial assets to the following IAS 39 categories: loans and receivables; held to maturity financial assets; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the income statement and is reported as "Interest income". Credit impairment losses are reported as a deduction from the carrying value of the loan and recognised in the income statement as "Credit impairment charges".

(b) Held to maturity financial assets

Certain investment securities are classified as "held to maturity". Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale.

Held to maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available-for-sale and would prevent the Group from classifying investment securities as held to maturity for the current and the two following financial years.

(c) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

(d) Recognition

The Group uses settlement date accounting when recording financial asset transactions where a trade is settled through the regular settlement cycle for that particular investment. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as "Assets pledged as collateral", if the transferee has the right to sell or repledge them.

1.10 Financial liabilities

The Group's holding in financial liabilities are held at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers and repurchase agreements. Financial liabilities are derecognised when extinguished.

1.11 Amortised cost measurement and determination of fair value

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes quoted debt instruments on major exchanges and broker quotes.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker or pricing service and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

1.12 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of: (i) the consideration received (including any new assets obtained less any new liability assumed); and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

1.13 Reclassification of financial assets

The Group may choose to reclassify financial assets that are classified in the available-for-sale category to the held to maturity category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. This fair value becomes the new cost or amortised cost as applicable. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date.

1.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.15 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the original effective interest rate on the net balance.

1.16 Fee, commission and other income

Fees and commissions and other income are earned from a wide range of services provided by the Group to its customers. Fee income is accounted for as follows:

(a) income earned on the execution of a significant act is recognised as revenue when the act is completed;

(b) income earned from the provision of services, for example income relating to the provision of safe deposit boxes, account servicing fees or transaction fees, is recognised as revenue when the services are provided; and

(c) income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

1. Accounting policies continued

1.17 Impairment of financial assets

(a) Assets carried at amortised cost

Metro Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. The impairment relating to loans and advances is calculated and assigned in accordance with the accounting standards for individual and collective impairment:

- Impairment of individual loans is designed to recognise specific risks identified by the Group following the occurrence of a loss event; for example, a commercial customer whose business has gone into administration. If loans are considered to be at risk, an individual assessment will be performed.
- For loans that are not considered to be individually impaired (whether individually significant or not), a collective impairment assessment is performed. Collective provisions are intended to reflect the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. The lending exposure subject to collective impairment is assessed for each group of loans with similar credit risk characteristics.

Collective impairment models are based on analysis of historical arrears data and estimated loss rates, in order to derive the expected loss net of the recoverable value. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the product risk profile: residential mortgage lending, commercial lending and consumer lending. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. The maximum time a loan can remain in past due without being written off is 24 months. Impairment charges relating to loans and advances to banks and customers are classified in credit impairment charges while impairment charges relating to investment securities (held to maturity) are classified in "Net gains/losses on investment securities".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets classified as available-for-sale

The Group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses on available-for-sale assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

1.18 Share-based payments

The grant date fair value of options granted to colleagues is recognised as an employee expense over the period in which the colleagues become unconditionally entitled to the options. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the colleague services received in respect of the shares or share options granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period.

The fair value of employee share option plans is calculated at the grant date using a Black-Scholes model. The resulting cost is charged to the Group income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

1.19 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and balances held with the Bank of England.

1.20 Leases

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

1.21 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment.

Property, plant and equipment is depreciated on a straight-line basis to its residual value using the following useful economic lives:

Leasehold improvements	Lower of the remaining life of the lease or the useful life of the asset
Freehold land	Not depreciated
Buildings	Up to 50 years
Fixtures and fittings and equipment	5 years
IT hardware	3 to 5 years

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

All items of property, plant and equipment are reviewed annually for impairment.

1.22 Intangible assets

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset controlled by the Group and will generate future economic benefits in accordance with IAS 38.

Costs to establish feasibility or to maintain existing performance are recognised as an expense. Intangible assets are amortised on a straight-line basis in profit or loss using the following useful economic lives:

Core banking software used for recording banking transactions	20 years
Other banking software	3 to 10 years
Software licences	Licence period
Customer contracts	10 years

All intangible assets are reviewed annually for impairment.

1.23 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Metro Bank's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, however it is reviewed for impairment on an annual basis. The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows. If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

1.24 Income tax

(a) Current income tax

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where the Group has tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the statement of financial position.

(b) Deferred income tax

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

1. Accounting policies continued

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used and deferred tax liabilities are provided on taxable temporary differences. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised or the deferred tax liability settled.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

1.25 Employee benefits

The Group operates a defined contribution pension scheme. The Group pays contributions to employees' individual personal pension plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

1.26 Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

1.27 Critical accounting judgements and estimates

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 Group's financial statements therefore present the financial position and results fairly.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

(a) Deferred tax

The largest element of the deferred tax asset represents the future tax impact of carried-forward tax losses which will reduce the payment of future tax. This element of the deferred tax asset requires management judgement in assessing its recoverability. At 31 December 2016, the Group recognised a deferred tax asset (net) of £56.3 million (2015: £53.1 million) in respect of tax losses carried forward and taxable temporary timing differences. The increase reflects in main the taxable losses generated by the continued significant investment by the Group in building stores, infrastructure and systems to enable future growth and scale to be achieved.

Accounting standards permit the recognition of a deferred tax asset to the extent that it is probable, more likely than not, that future taxable profits will be available to utilise the tax losses carried forward. This assessment of future taxable profits has been performed over management's current planning horizon and involves significant estimation uncertainty, principally relating to projections of future taxable income based on business plans. These income projections include assumptions about the future strategy of the Group and its ability to deliver expected performance against projections for new stores, deposit and loan growth, loan to deposit ratio, interest margins and operating costs.

The Directors are satisfied based on the progress of the Group since launch, and the detailed projections which include stress-tested scenarios, that sufficient taxable profits will be available to utilise the tax losses carried forward in full.

(b) Impairment losses on loans and advances

Individual impairment losses on secured loans and advances are calculated based on an individual valuation of the underlying asset and other expected cash flows. Collective impairment losses on loans and advances are calculated using a statistical model. The key assumptions used in the model are the probability of default; the probability of this default resulting in possession and/or write-off; and the subsequent loss incurred. These key assumptions are monitored quarterly to ensure the impairment allowance is reflective of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes. For mortgage loan receivables, to the extent that:

- the loss given default differs by +/- 10%, for example if the loss given default is 10% then it is increased to 11% or decreased to 9%, the impairment allowance would be an estimated £0.7 million higher or lower respectively; and
- the level of house prices differs by +/- 10%, for example a property value of £100,000 is increased to £110,000 or decreased to £90,000, the impairment allowance would be an estimated £0.7 million lower or £2.9 million higher respectively.

(c) Effective interest rate

IAS 39 requires interest earned from loans and advances to customers to be measured at amortised cost using the effective interest rate method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate may therefore be affected by unexpected market movements resulting in altered customer behaviour and incorrect assumptions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

- If the estimated life of retail and commercial mortgages were increased or decreased by 10%, the value of such loans on the balance sheet would be increased or decreased by £0.3 million.
- If the estimated life of corporate term loans were increased or reduced by 10%, the value of such assets on the balance sheet would be increased or decreased by £0.4 million.

2. Interest income

	2016 £'000	2015 £'000
Investment securities	46,528	28,119
Loans and advances to customers	166,958	97,080
Total interest income	213,486	125,199

3. Interest expense

	2016 £'000	2015 £'000
Interest on customer accounts	48,481	27,988
Interest on repurchase agreements	4,900	4,809
Other	5,865	3,529
Total interest expense	59,246	36,326

4. Fee and commission income

	2016 £'000	2015 £'000
Service charges and other fee income	13,290	9,072
Safe deposit box income	7,012	5,257
ATM and interchange fees	1,887	1,384
Total fee and commission income	22,189	15,713

5. Other income

	2016 £'000	2015 £'000
Gains on foreign currency transactions	10,846	6,846
Other	2,440	2,391
Total other income	13,286	9,237

6. Operating expenses

	2016 £'000	2015 £'000
People costs	93,185	74,418
Occupancy expense	26,082	22,577
Information technology costs	14,274	10,922
Marketing costs	3,035	3,467
Legal, regulatory and professional fees	6,122	4,502
Other expenses	37,069	25,677
Total operating expenses	179,767	141,563

7. People costs

	2016 £'000	2015 £'000
Wages and salaries	77,954	62,375
Social security costs	8,304	6,611
Other pension costs	4,580	3,757
Equity-settled share-based payments	2,347	1,675
Total	93,185	74,418

Share Awards were granted to key members of the management team in March 2016 in recognition of their significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange. The awards are accounted for under the requirements of IFRS 2 ("Share-based Payment"). Under this standard, the expense is recognised from the date when there was a shared understanding between parties of the terms of the award to be granted. This was considered to be in March 2016. To date, 20% of the award has vested (in March 2016) and the remaining 80% will vest annually on 30 April, 16% each year. The total expense in 2016 was £3,296,000; this expense is included in the income statement within costs associated with Listing.

7. People costs continued

The average monthly number of persons employed by the Group during the period was 2,129 (2015: 1,821).

	2016 £'000	2015 £'000
Client-facing	1,400	1,200
Non-client-facing	729	621
Total	2,129	1,821

Pension costs

The Group operates a defined contribution arrangement for employees. Payments were made amounting to £4.9 million (2015: £4.1 million) to employees' individual personal pension plans during the year.

8. Fees payable to the Group's Auditor

Fees payable to PricewaterhouseCoopers LLP ("PwC"):

	2016 £'000	2015 £'000
For Metro Bank's statutory audit	865	720
For additional amounts relating to the prior year statutory audit, arising due to the Listing	214	–
For the statutory audit of Metro Bank's subsidiaries	37	36
For the reporting accountant services provided in association with the Listing	588	702
For tax compliance services	–	56
For tax advisory services	10	14
For all other services	60	–
Total	1,774	1,528

9. Taxation

Tax credit/(charge) for the year	2016 £'000	2015 £'000
Current tax:		
UK Corporation Tax	(177)	–
Adjustment in respect of prior years	–	–
Total current tax	(177)	–
Deferred tax:		
Current year (charge)/credit	(304)	7,600
Adjustment in respect of prior years	926	–
Total deferred taxation	622	7,600
Total tax credit	445	7,600

Factors affecting the tax credit/(charge) for the year

Total tax paid in relation to income during the year was £nil (December 2015: £nil). The tax credit on the Group's loss before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to the losses of the consolidated entities as follows:

	2016 £'000	2015 £'000
Loss before tax	(17,198)	(56,797)
Loss on ordinary activities multiplied by standard rate of Corporation Tax in the UK (20%)	3,440	11,359
Tax effects of:		
Expenses not deductible for tax purposes – Listing fees	(368)	(296)
Expenses not deductible for tax purposes – other	(3,833)	(453)
Adjustment in respect of prior years	926	–
Change in tax rates on the net deferred tax asset	280	(3,010)
Total tax credit	445	7,600

The Finance Bill 2016 was substantively enacted on 6 September 2015. The Act reduced the main rate of Corporation Tax to 17% with effect from 1 April 2020. This supersedes the 18% rate effective in the Finance (No.2) Act 2015.

In the 2016 Budget the Chancellor announced from 1 April 2017 there will be a new restriction on the amount of profit that can be offset by brought forward losses. The use of brought forward losses against current year profits will be subject to an annual allowance of £5 million per group and above this allowance there will be a 50% restriction in the profits that can be covered by losses brought forward. This planned legislation has not yet been substantively enacted and therefore does not impact Metro Bank at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Taxation continued

Deferred tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted. 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 1.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Unused tax losses £'000	Available-for-sale securities £'000	Share-based payments £'000	Property, plant and equipment £'000	Intangible assets £'000	Total £'000
2016						
Deferred tax assets	61,403	183	6,840	–	177	68,603
Deferred tax liabilities	–	(1,906)	(645)	(4,478)	(5,295)	(12,324)
Deferred tax assets (net)	61,403	(1,723)	6,195	(4,478)	(5,118)	56,279
At 1 January 2016	56,163	–	1,499	(1,861)	(2,748)	53,053
Income statement	6,267	–	(658)	(2,617)	(2,370)	622
Other comprehensive income	(1,027)	(1,723)	–	–	–	(2,750)
Equity	–	–	5,354	–	–	5,354
At 31 December 2016	61,403	(1,723)	6,195	(4,478)	(5,118)	56,279
2015						
Deferred tax assets	56,163	–	1,499	–	–	57,662
Deferred tax liabilities	–	–	–	(1,861)	(2,748)	(4,609)
Deferred tax assets (net)	56,163	–	1,499	(1,861)	(2,748)	53,053
At 1 January 2015	46,611	–	176	(1,001)	(2,141)	43,645
Income statement	7,747	–	1,323	(860)	(607)	7,603
Other comprehensive income	1,805	–	–	–	–	1,805
At 31 December 2015	56,163	–	1,499	(1,861)	(2,748)	53,053

Relevant disclosures for the Company have not been included, as these are not materially different to the Group disclosure above.

10. Loans and advances to customers and banks

	Group 31 December 2016 £'000	Group 31 December 2015 £'000	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Gross loans and advances to customers	5,872,864	3,549,331	5,712,571	3,426,689
Less: allowance for impairment	(7,494)	(6,783)	(6,610)	(3,580)
Net loans and advances to customers	5,865,370	3,542,548	5,705,961	3,423,109
Amounts include:				
Repayable on demand or at short notice	49,215	38,385	53,218	38,385

	Group 31 December 2016 £'000	Group 31 December 2015 £'000	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Individual (retail customers):				
Overdrafts	66,088	49,701	66,088	49,701
Credit cards	7,369	5,976	7,369	5,976
Term loans	107,584	63,793	107,584	63,793
Mortgages	3,604,591	2,156,419	3,604,591	2,156,419
Corporate:				
Overdrafts	32,613	24,566	36,615	24,568
Credit cards	1,681	887	1,681	887
Term loans	1,874,104	1,111,239	1,874,104	1,111,239
Asset and invoice finance	164,295	122,644	–	–
Senior secured lending	14,539	14,106	14,539	14,106
Gross loans and advances to customers	5,872,864	3,549,331	5,712,571	3,426,689

Loan asset credit quality

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

- A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.
- The impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment.
- Loans neither past due nor impaired and loans that are past due but not impaired consist predominantly of corporate and retail loans that are performing and whilst not individually impaired, may be subject to a collective impairment allowance.
- Impaired loans that are individually assessed consist predominantly of corporate loans that are past due and for which an individual allowance has been raised.
- Portfolio impaired loans, which are not included in the categories above are a subset of collectively impaired loans and consist predominantly of retail loans that are 90 days or more past due.

	Group 2016		Company 2016	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired	5,762,719	65,816	5,603,481	64,368
Past due but not impaired	88,811	–	88,640	–
Individually impaired	6,555	–	5,671	–
Portfolio impaired	14,779	–	14,779	–
Total	5,872,864	65,816	5,712,571	64,368
Less: allowance for impairment	(7,494)	–	(6,610)	–
Total	5,865,370	65,816	5,705,961	64,368
Individually impaired	(1,825)	–	(941)	–
Collectively impaired*	(5,669)	–	(5,669)	–
Total allowance for impairment	(7,494)	–	(6,610)	–

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Loans and advances to customers and banks continued

	Group 2015		Company 2015	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired	3,473,856	64,248	3,355,105	66,815
Past due but not impaired	60,033	–	59,345	–
Individually impaired	4,562	–	1,359	–
Portfolio impaired	10,880	–	10,880	–
Total	3,549,331	64,248	3,426,689	66,815
Less: allowance for impairment	(6,783)	–	(3,580)	–
Total	3,542,548	64,248	3,423,109	66,815
Individually impaired	(3,282)	–	(79)	–
Collectively impaired*	(3,501)	–	(3,501)	–
Total allowance for impairment	(6,783)	–	(3,580)	–

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

	Group 31 December 2016 £'000	Group 31 December 2015 £'000	**Company 31 December 2016 £'000**	Company 31 December 2015 £'000
Allowance for impairment at 1 January	**(6,783)**	(5,439)	**(3,580)**	(3,298)
Write-offs	**3,483**	5,686	**797**	5,332
Balance sheet reclassification of operational loss provision	**924**	–	**924**	–
Increase in impairment allowance	**(5,118)**	(7,030)	**(4,751)**	(5,615)
Allowance for impairment at 31 December	**(7,494)**	(6,783)	**(6,610)**	(3,580)

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

31 December 2016

	Group				**Company**			
	Mortgages £'000	**Corporate £'000**	**Other £'000**	**Total £'000**	**Mortgages £'000**	**Corporate £'000**	**Other £'000**	**Total £'000**
Past due less than 6 days	**15,994**	**45,237**	**958**	**62,189**	**15,994**	**45,237**	**958**	**62,189**
Past due 7–30 days	**5,859**	**14,710**	**1,984**	**22,553**	**5,859**	**14,710**	**1,984**	**22,553**
Past due 31–60 days	**2,051**	**96**	**631**	**2,778**	**2,051**	**96**	**631**	**2,778**
Past due 61–90 days	**599**	**60**	**461**	**1,120**	**599**	**60**	**461**	**1,120**
Over 90 days	**–**	**171**	**–**	**171**	**–**	**–**	**–**	**–**
Total	**24,503**	**60,274**	**4,034**	**88,811**	**24,503**	**60,103**	**4,034**	**88,640**

31 December 2015

	Group				Company			
	Mortgages £'000	Corporate £'000	Other £'000	Total £'000	Mortgages £'000	Corporate £'000	Other £'000	Total £'000
Past due less than 6 days	8,151	18,520	264	26,935	8,151	18,520	264	26,935
Past due 7–30 days	15,977	12,014	1,498	29,489	15,977	12,014	1,498	29,489
Past due 31–60 days	1,223	425	427	2,075	1,223	73	427	1,723
Past due 61–90 days	745	189	265	1,199	745	189	264	1,198
Over 90 days	–	335	–	335	–	–	–	–
Total	26,096	31,483	2,454	60,033	26,096	30,796	2,453	59,345

11. Investment securities

Group and Company

Fair values of investment securities held at fair value	Level 1 £'000	Level 2 £'000	Total £'000
Recurring fair value measurements			
As at 31 December 2016			
Financial investments: available-for-sale	274,027	330,100	604,127
As at 31 December 2015			
Financial investments: available-for-sale	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 relevant to the Group and Company are defined below.

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

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

Reclassifications between categories
On 31 May 2016, £25.4 million of financial assets classified as available-for-sale were reclassified as held to maturity. On 22 November 2016, £14.9 million of financial assets classified as available-for-sale were reclassified as held to maturity. The carrying amount (including accrued interest) and fair value of the assets at 31 December 2016 were as follows:

	Carrying amount £'000	Fair value £'000
At 31 December 2016	40,329	40,872

A £0.06 million fair value gain was recognised with respect to the reclassified assets in 2016; had these assets not been reclassified, a additional fair value gain of £0.55 million would have been recognised in other comprehensive income. The effective interest rates on available for sale assets reclassified to held to maturity at 1 January 2016 and 31 December 2016 ranged from 1.4% to 1.8%, with all cash flows expected to be recoverable.

At 31 December 2016, financial investments classified as held to maturity were as follows:

	Carrying amount £'000	Fair value £'000
At 31 December 2016	2,622,588	2,651,136
At 31 December 2015	1,635,985	1,629,527

12. Property, plant and equipment

Group

	Leasehold improvements £'000	Freehold land and buildings £'000	Fixtures, fittings and equipment £'000	IT hardware £'000	Total £'000
Cost					
1 January 2016	156,238	8,273	17,400	27,439	209,350
Additions	46,444	44,672	3,417	3,295	97,828
Disposals	–	–	–	(3)	(3)
Transfers	(31,626)	31,626	–	–	–
31 December 2016	171,056	84,571	20,817	30,731	307,175
Accumulated depreciation					
1 January 2016	17,110	–	7,920	19,063	44,093
Impairments	35	–	161	44	240
Charge for the year	6,800	1,000	2,834	5,054	15,688
Other write-offs	413	–	22	29	464
Transfers	(2,376)	2,376	–	–	–
31 December 2016	21,982	3,376	10,937	24,190	60,485
Net book value	149,074	81,195	9,880	6,541	246,690

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Property, plant and equipment continued

	Leasehold improvements £'000	Freehold land and buildings £'000	Fixtures, fittings and equipment £'000	IT hardware £'000	Total £'000
Cost					
1 January 2015	119,026	8,273	12,580	22,832	162,711
Additions	38,503	–	4,844	6,321	49,668
Impairments	(1,291)	–	(24)	(1,714)	(3,029)
31 December 2015	156,238	8,273	17,400	27,439	209,350
Accumulated depreciation					
1 January 2015	11,197	–	5,069	14,250	30,516
Impairments	(109)	–	(4)	(1,223)	(1,336)
Charge for the year	6,022	–	2,855	6,036	14,913
31 December 2015	17,110	–	7,920	19,063	44,093
Net book value	139,128	8,273	9,480	8,376	165,257

The relevant disclosures for the Company have not been included on the basis they are not materially different from those of the Group.

Transfers represent costs associated with the improvements made to previously leased stores which have been purchased by the Group in the year.

13. Intangibles

Group	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
Cost				
1 January 2016	4,140	600	56,745	61,485
Additions	–	–	45,053	45,053
Disposals	–	–	(1)	(1)
31 December 2016	4,140	600	101,797	106,537
Amortisation				
1 January 2016	–	145	7,097	7,242
Impairments	–	–	75	75
Charge for the year	–	60	6,631	6,691
Other write-offs	–	–	14	14
31 December 2016	–	205	13,817	14,022
Net book value	4,140	395	87,980	92,515

Group	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
Cost				
1 January 2015	4,140	600	35,319	40,059
Additions	–	–	29,907	29,907
Impairments	–	–	(8,481)	(8,481)
31 December 2015	4,140	600	56,745	61,485
Amortisation				
1 January 2015	–	85	5,305	5,390
Impairments	–	–	(1,430)	(1,430)
Charge for the year	–	60	3,222	3,282
31 December 2015	–	145	7,097	7,242
Net book value	4,140	455	49,648	54,243

13. Intangibles continued

Company	2016 Software £'000	2015 Software £'000
Cost		
1 January	56,745	35,319
Additions	44,144	29,907
Impairments	–	(8,481)
31 December	100,889	56,745
Amortisation		
1 January	7,097	5,305
Impairments	75	(1,430)
Charge for the year	6,631	3,222
Other write-offs	14	–
31 December	13,817	7,097
Net book value	87,072	49,648

The goodwill held in the Group's balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate CGU; of the total balance of £4.1 million (2015: £4.1 million), £4.1 million, or 100% of the total, has been allocated to SME Invoice Finance Limited.

The recoverable amount of SME Invoice Finance Limited has been based on a value-in-use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a seven-year period and a discount rate of 10.55%. The long-term growth rate is consistent with external sources of information reviewed by management. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of SME Invoice Finance Limited to fall below the balance sheet carrying value. Seven years was used as the basis for discounted cash flow calculation to align with the 2016–2022 plan, prepared by management and approved by the Board, and used in decision-making. The plan is reviewed and updated annually.

14. Prepayments and accrued income

	Group 31 December 2016 £'000	Group 31 December 2015 £'000
Prepayments	19,103	13,636
Accrued income	15,580	8,998
VAT receivable	7,597	7,144
Other	720	678
Total prepayments and accrued income	43,000	30,456
Current portion	43,000	30,456
Non-current portion	–	–

	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Prepayments	16,508	11,844
Accrued income	15,573	8,980
VAT receivable	7,597	7,144
Other	720	678
Total prepayments and accrued income	40,398	28,646
Current portion	40,398	28,646
Non-current portion	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Other assets

	Group 31 December 2016 £'000	Group 31 December 2015 £'000
Assets pledged as collateral	11,733	8,878
Other	14,558	11,647
	26,291	20,525
Current portion	12,905	11,715
Non-current portion	13,386	8,810

	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Assets pledged as collateral	11,733	8,878
Other	14,586	11,670
Amounts owed by Group undertakings	143,457	96,908
	169,776	117,456
Current portion	156,353	12,339
Non-current portion	13,423	105,117

16. Other liabilities

	Group 31 December 2016 £'000	Group 31 December 2015 £'000
Trade creditors	2,161	1,792
Other taxation and social security costs	6,522	6,592
Accruals and deferred income	71,193	45,412
Other liabilities	26,207	17,617
	106,083	71,413
Current portion	96,709	62,977
Non-current portion	9,374	8,436

	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Trade creditors	2,157	1,589
Other taxation and social security costs	6,276	6,462
Accruals and deferred income	71,012	45,112
Other liabilities	21,908	10,570
	101,353	63,733
Current portion	91,979	55,297
Non-current portion	9,374	8,436

17. Called up share capital

As at 31 December 2016 the Group had 80.3 million A ordinary shares of 0.0001p (31 December 2015: 59.2 million) in issue.

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

Additionally, during the year the Group issued 1,132,142 A ordinary shares; of which 900,818 relate to conversion of 1 million B ordinary shares, 152,130 relate to executive Share Awards and 79,194 relate to the exercise of previously awarded share options. These transactions contributed £3.6 million to share premium.

	31 December 2016 £'000	31 December 2015 £'000
Called up ordinary share capital, issued and fully paid		
At beginning of period	–	–
Issued	–	–
At end of period	–	–

	31 December 2016 £'000	31 December 2015 £'000
Share premium account		
At beginning of period	629,304	629,304
Issued	403,572	–
Costs of shares issued	(5,231)	–
At end of period	1,027,645	629,304

18. Share options

The Group offers share options to Directors and employees. The exercise price of the granted options is equal to the estimated market price determined at the date of the grant. Options generally vest over five years and have a contractual option term of ten years. Share options acquired via "exchange" of some or all of the cash element of an employee's variable reward, vest immediately. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	2016		2015	
	Number of options '000	Weighted average exercise price £	Number of options '000	Weighted average exercise price £
Outstanding at 1 January	2,571	13.70	1,492	12.30
Granted	630	20.00	1,140	15.54
Exercised	(162)	12.89	–	–
Lapsed	(132)	15.18	(61)	13.73
Outstanding at 31 December	2,907	15.04	2,571	13.70
Exercisable at 31 December	1,276	13.76	N/A	N/A

The average share price during 2016 was 2,404.56p (2015: n/a). The number of share options outstanding at year end was as follows:

	2016		2015	
Exercise price	Number of options '000	Weighted average remaining contractual life years	Number of options '000	Weighted average remaining contractual life years
£9.00	75	4.8	91	5.8
£10.00	167	5.8	204	6.8
£12.00	281	6.9	306	7.9
£13.00	82	7.2	98	8.2
£13.50	703	7.8	745	8.8
£14.00	226	n/a	260	n/a
£16.00	781	n/a	867	n/a
£20.00	592	9.3	–	–
Total	2,907	7.8	2,571	8.1

18. Share options continued

The fair value of the options granted during the year is determined using a Black-Scholes valuation model and was £1.6 million (2015: £2.3 million) and is based on the following assumptions:

	2016 bonus exchange	2016 share options
Option grant		
Weighted average risk-free interest rate	0.44%	0.61%
Weighted average expected life	2 years	3.25 years
Weighted average expected volatility	24.38%	25.71%
Weighted average expected dividend yield	nil	nil
Weighted average share price	£20.00	£20.00
Weighted average exercise price	£20.00	£20.00

Expected volatility is a measure of the amount by which the Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on a statistical analysis of the share prices of other high street banks.

19. Reconciliation of movements in retained earnings

	Group 2016 £'000	Group 2015 £'000
At 1 January	(213,440)	(164,243)
Loss for the year	(16,753)	(49,197)
At 31 December	(230,193)	(213,440)

	Company 2016 £'000	Company 2015 £'000
At 1 January	(216,594)	(166,147)
Loss for the year	(19,156)	(50,447)
At 31 December	(235,750)	(216,594)

20. Financial commitments

At 31 December 2016, Metro Bank had irrevocable undrawn loan facilities granted to retail and commercial customers of £382.2 million (2015: £332.5 million).

In addition, the Group has, as part of its retail and commercial operations, commitments of £156.2 million (2015: £96.0 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

21. Leasing commitments

Commitments under leases

The Group leases various offices and stores under non-cancellable operating lease arrangements. The total operating lease expenditure recognised in the statement of comprehensive income during the year was £17.1 million (2015: £15.1 million). The leases have various terms, escalation, renewal and rights. At the balance sheet date, future minimum payments under operating leases relating to land and buildings were as follows:

	2016 £'000	2015 £'000
Due		
Within one year	17,534	16,304
Due in one to five years	71,954	60,828
Due in more than five years	290,574	249,763
	380,062	326,895

21. Leasing commitments continued

Future income due under non-cancellable operating leases

The Group leases out surplus space in some of its properties. The balances reflect the cash payments expected over the remaining non-cancellable term of each lease. Of the total below, £10.1 million (2015: £nil) relates to sub-letting of leased stores. During the year £631,000 (2015: £105,000) was recognised as rental income in the statement of comprehensive income.

	2016 £'000	2015 £'000
Receivable		
Within one year	835	178
Due in one to five years	3,115	895
Due in more than five years	8,514	697
	12,464	1,770

22. Financial instruments

The Group's financial instruments primarily comprise customer deposits, loans to customers, cash held at banks and investment securities. All of these arise as a result of the Group's normal operations. The Group does not enter into transactions for speculative purposes and there are no instruments held for trading. From time to time, the Group may use interest rate derivatives such as swaps to manage part of its interest rate risk.

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

23. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities.

The Chief Risk Officer is responsible for managing the Group's credit risks through the following:

- Defining the Enterprise Risk Management structure and quantifying the Group Risk Appetite.
- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Limiting concentrations of exposure to counterparties and industries (for loans and advances and similar exposures) and by issuer, credit rating bands and market liquidity (for investment securities).

For details about our loans and advances to customers and the allowance for impairment/loss held by the Group against those assets, please refer to note 10.

The Group invests in high-quality liquid debt instruments as required by the Group's Securities Trading and Investment policy. The analysis below details the credit rating of the securities as at 31 December 2015 and 31 December 2016. No allowance for impairment or loss was held against any of these assets at 31 December 2015 or 31 December 2016.

Credit rating	Designated at fair value 2016 £'000	Designated at fair value 2015 £'000
AAA	2,434,852	1,312,838
AA- to AA+	458,112	319,524
A- to A+	141,590	156,409
Lower than A-	192,161	211,021
Total	3,226,715	1,999,792

The Group has pledged £2,725.0 million (2015: £1,023.0 million) of assets as encumbered collateral which can be called upon in the event of default. Of this, £2,062.0 million (2015: £1,023.0m) is made up of high-quality securities and £663.0 million (2015: £nil) is from the Group's own loan portfolio prepositioned with the Bank of England to support some of the Term Funding Scheme ("TFS") drawings.

£2,087.0 million (2015: £540.0 million) of this encumbered collateral is pledged to the Bank of England through the Bank's participation in the Funding for Lending Scheme ("FLS") and the TFS to support the £1,071.0 million (2015: £465.4 million) T-bills and £543.0 million (2015: £nil) of cash drawn down.

The remaining £638.0 million (2015: £483.0 million) is pledged with the Bank of England and market participants in the form of repo.

23. Credit risk continued

Collateral held and other credit enhancements, and their financial effect

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

At 31 December 2016	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loans and advances to banks	65,816	–	65,816
Loans and advances to customers:			
– Loans to individuals (note 10)	3,785,632	(3,615,433)	170,199
– Loans to corporate entities (note 10)	2,087,232	(1,566,236)	520,996
Investment securities (note 11)	3,226,715	–	3,226,715
Other assets (note 15)	26,291	–	26,291
	9,191,686	(5,181,669)	4,010,017

Credit risk exposures relating to off-balance sheet items are as follows:

At 31 December 2016	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loan commitments and other credit related obligations	538,506	–	538,506
	9,730,192	(5,181,669)	4,548,523

At 31 December 2015	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loans and advances to banks	64,248	–	64,248
Loans and advances to customers:			
– Loans to individuals (note 10)	2,275,889	(2,221,469)	54,420
– Loans to corporate entities (note 10)	1,273,442	(1,055,255)	218,187
Investment securities (note 11)	1,999,792	–	1,999,792
Other assets (note 15)	20,525	–	20,525
	5,633,896	(3,276,724)	2,357,172

Credit risk exposures relating to off-balance sheet items are as follows:

At 31 December 2015	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loan commitments and other credit related obligations	428,458	–	428,458
	6,062,354	(3,276,724)	2,785,630

As shown above, 65% (2015: 64%) of the total maximum exposure is derived from loans and advances to banks and customers; 35% (2015: 35%) represents investments in high-quality debt securities.

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 valuation of the collateral excludes any adjustments for obtaining and selling the collateral. 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.

	31 December 2016 £'000	31 December 2015 £'000
LTV ratio		
Less than 50%	1,121,993	594,444
51–70%	1,635,626	962,994
71–90%	756,025	495,921
91–100%	41,224	46,219
More than 100%	49,723	56,841
Total	3,604,591	2,156,419

23. Credit risk continued

Loans and advances to corporate customers

The general creditworthiness 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 Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Concentrations of credit risk

The Group monitors concentrations of credit risk by sector for commercial term loans exposure. The Group risk appetite is set at the beginning of every year and monitored as part of the Board committee.

	2016		2015	
Industry types – commercial term loans	Gross balance £'000	Concentration %	Gross balance £'000	Concentration %
Real estate (rent, buy and sell)	1,064,194	57%	627,904	57%
Legal, accountancy and consultancy	276,164	15%	133,848	12%
Health and social work	177,931	10%	95,722	9%
Hospitality	95,600	5%	40,007	4%
Real estate (management of)	90,240	5%	46,707	4%
Construction	58,204	3%	39,116	4%
Retail	37,009	2%	80,030	7%
Investment and unit trusts	20,448	1%	–	–
Recreation, cultural and sport	8,643	0%	6,859	1%
Real estate (development)	2,036	0%	–	–
Education	1,484	0%	3,289	0%
Other	42,151	2%	37,757	3%
Total	1,874,104	100%	1,111,239	100%

Commercial exposures represent a growing part of the total lending portfolio. The average debt-to-value ("DTV") of the commercial loan book is stable and below 60%. The proportion of lending with DTV above 80% is stable at 6%. Collections performances continue to improve. DTV is calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral.

	31 December 2016 £'000	31 December 2015 £'000
Total commercial lending	2,087,232	1,273,442
Percentage of total lending	36%	36%
Average DTV	57%	57%
DTV > 80%	6%	6%
NPL ("non-performing-loan") ratio*	0.1%	0.1%

* The non-performing-loan ratio is calculated as the ratio of the gross outstanding amount of loans with more than three instalments unpaid to the total gross outstanding amount.

Forbearance relates to when a concession on the contractual terms of a loan is made to a customer as a result of financial difficulties. Changes in terms result in an amended monthly cash flow from:

- payment holidays;
- term extensions; or
- payment concessions.

As at 31 December 2016, the exposure from forbearance arrangements was £9.6 million (31 December 2015: £7.7 million).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loans and advances portfolio and debt securities based on the following:

- 75% (2015: 66%) of the debt securities are AAA rated and 14% (2015: 16%) are AA rated;
- 88% (2015: 92%) of loans and advances to customers are backed by collateral; and
- over 99% (2015: 99%) of the loans and advances portfolio are considered to be unimpaired.

24. Liquidity risk

Liquidity risk is 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.

The Group's Board of Directors sets the Group's risk appetite and policy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Asset and Liability Management Committee ("ALCO"). The Treasury function manages the Group's liquidity position on a day-to-day basis under the oversight of the CFO and ALCO. The Group's approach is to ensure that it can meet payments as they fall due – both in normal conditions and in the event of a severe liquidity stress, and that it can survive a severe liquidity stress event and continue as a going concern. The key elements of the Group's liquidity strategy are as follows:

- building a franchise that has a stable deposit funding base, free of short-term unsecured wholesale funding;
- maintaining, at all times, a stock of liquid assets that are of sufficient quality and quantity so as to be able to withstand the Group's liquidity stress scenarios;
- monitoring liquidity risk exposures on an ongoing basis under a variety of market-wide and idiosyncratic liquidity stress scenarios; and
- maintaining a diversified funding base.

Expected maturity dates of the Group's financial instruments do not differ significantly from the contract dates except for retail deposits. These are repayable on demand or at short notice on a contractual basis.

In practice, however, these instruments provide long-term stable funding for the Group's operations and liquidity needs because of the stable deposit nature of the Group's business model.

The tables below set out the maturity structure of the Group's financial instruments, which categorises liabilities by their earliest possible contractual maturity date; this differs from the behavioural maturity characteristics of the deposit base in both normal and stressed conditions, as the behavioural maturity is much longer than the contractual maturity.

	Repayable on demand £'000	Up to 3 months £'000	3–6 months £'000	6–12 months £'000	1–5 years £'000	Over 5 years £'000	No contractual maturity £'000	Total £'000
31 December 2016								
Cash and balances with the Bank of England	434,656	–	–	–	–	–	–	434,656
Loans and advances to banks	65,816	–	–	–	–	–	–	65,816
Loans and advances to customers	–	283,104	287,838	539,238	3,631,980	1,749,887	167,819	6,659,866
Investment securities	–	181,312	112,500	364,875	1,620,266	239,027	–	2,517,980
Total financial assets	500,472	464,416	400,338	904,113	5,252,246	1,988,914	167,819	9,678,318
Other assets	–	37,472	82	171	1,423	5,222	25,448	69,818
Total assets	500,472	501,888	400,420	904,284	5,253,669	1,994,136	193,267	9,748,136
Deposits from customers	(5,607,783)	(453,840)	(482,378)	(652,675)	(614,871)	–	(171,774)	(7,983,321)
Deposits from central banks	–	(299)	(544)	(1,235)	(554,424)	–	–	(556,502)
Repurchase agreements	–	(211,946)	(320,990)	(932)	(125,208)	–	–	(659,076)
Other liabilities	(618)	–	–	–	–	–	–	(618)
Total financial liabilities	(5,608,401)	(666,085)	(803,912)	(654,842)	(1,294,503)	–	(171,774)	(9,199,517)
Capital	–	–	–	–	–	–	–	–
Total liabilities	(5,608,401)	(666,085)	(803,912)	(654,842)	(1,294,503)	–	(171,774)	(9,199,517)
Cumulative liquidity gap	(5,107,929)	(5,272,126)	(5,675,618)	(5,426,176)	(1,467,010)	527,126	–	548,619

24. Liquidity risk continued

	Repayable on demand £'000	Up to 3 months £'000	3–6 months £'000	6–12 months £'000	1–5 years £'000	Over 5 years £'000	No contractual maturity £'000	Total £'000
31 December 2015								
Cash and balances with the Bank of England	217,900	–	–	–	–	–	–	217,900
Loans and advances to banks	64,248	–	–	–	–	–	–	64,248
Loans and advances to customers	–	220,180	163,034	314,439	2,239,748	1,109,481	83,852	4,130,734
Investment securities	–	22,466	27,147	137,337	1,580,056	377,339	–	2,144,345
Total financial assets	282,148	242,646	190,181	451,776	3,819,804	1,486,820	83,852	6,557,227
Other assets	–	–	–	–	–	–	–	–
Total assets	282,148	242,646	190,181	451,776	3,819,804	1,486,820	83,852	6,557,227
Deposits from customers	(3,437,162)	(291,430)	(244,670)	(621,064)	(461,025)	–	(54,917)	(5,110,268)
Repurchase agreements	–	(92,540)	(329,624)	(110,476)	(32,268)	–	–	(564,908)
Other liabilities	–	–	–	–	–	–	–	–
Total financial liabilities	(3,437,162)	(383,970)	(574,294)	(731,540)	(493,293)	–	(54,917)	(5,675,176)
Capital	–	–	–	–	–	–	–	–
Total liabilities	(3,437,162)	(383,970)	(574,294)	(731,540)	(493,293)	–	(54,917)	(5,675,176)
Cumulative liquidity gap	(3,155,014)	(3,296,338)	(3,680,451)	(3,960,215)	(633,704)	853,116	–	882,051

25. Market risk

Market risk is 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. The objective of the Group's market risk management strategy is to manage and control market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Investment price risk

The Group does not undertake proprietary trading activities and holds primarily high-grade investment securities which have been approved by ALCO. Management monitors the movements in the Group's investments market value on a regular basis. In the event of a material detrimental movement in either the value or the credit quality of an asset, ALCO is advised and it is responsible to decide whether to retain or dispose of the asset, in conjunction with the Credit Committee in the case of corporate bonds.

Changes in the value of treasury assets accounted for as available-for-sale ("AFS") are taken to the AFS reserve, and under CRD IV, directly reduce the Group's capital resources where negative. The table below is a projection of the impact on the market value of AFS securities held at the 2016 year end, of a plus and minus 1.00% and 2.00% parallel shift in the yield curve (disregarding any interest rate floors). Stressed fair values are calculated on the same methodology as the Group uses for calculating current fair values on its AFS investments.

Sensitivity of prices of investment securities to changes in yield curves	-200bps £'000	-100bps £'000	+100bps £'000	+200bps £'000
At 31 December 2016	**22,698**	**11,052**	**(10,497)**	**(20,473)**
At 31 December 2015	14,840	7,230	(6,880)	(13,420)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. Market risk continued

The principal market risk Metro Bank is exposed to is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps which arise due to differences in the timing of the interest rate repricing of its financial instrument assets and liabilities. The Group manages this risk by matching the timing of the interest rate repricing to within the Group's interest rate risk appetite. The Group seeks to do so primarily through the use of natural hedges, but may use derivatives for this purpose from time to time.

Metro Bank manages this risk within a risk appetite framework that is set and approved by the Board. Risk appetite is set for the market value of equity ("MVoE") and net interest income ("NII") sensitivities for defined stress scenarios. The position against each limit is reported monthly to the ALCO (with exceptions communicated immediately), and noted by the Risk Oversight Committee and the Board.

Interest rate risk

Supplementary limits are additionally set to capture any additional interest rate in the Bank's balance sheet. This includes the consideration of movements between LIBOR and the Bank of England base rate.

The tables below set out the interest rate risk repricing gaps of the Bank's balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods.

31 December 2016	Up to 3 months £'000	3–6 months £'000	6–12 months £'000	1–5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Loans to banks	–	–	–	–	–	65,816	65,816
Loans to customers	2,577,363	229,666	488,134	2,469,304	19,625	81,278	5,865,370
Other assets	3,069,473	1,565	81,185	577,511	56,847	339,521	4,126,102
Total assets	5,646,836	231,231	569,319	3,046,815	76,472	486,615	10,057,288
Deposits from customers	(3,781,029)	(606,297)	(649,191)	(633,188)	–	(2,280,874)	(7,950,579)
Other liabilities	(1,141,697)	(36,641)	(643)	(20,424)	–	(102,769)	(1,302,174)
Shareholders' funds	–	–	–	–	–	(804,535)	(804,535)
Total liabilities	(4,922,726)	(642,938)	(649,834)	(653,612)	–	(3,188,178)	(10,057,288)
Interest rate sensitivity gap	724,110	(411,707)	(80,515)	2,393,203	76,472	(2,701,563)	–
Cumulative gap	724,110	312,403	231,888	2,625,091	2,701,563	–	–

31 December 2015	Up to 3 months £'000	3–6 months £'000	6–12 months £'000	1–5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Loans to banks	64,248	–	–	–	–	–	64,248
Loans to customers	1,869,162	93,016	179,231	1,349,041	5,947	46,151	3,542,548
Other assets	1,458,138	544	19,552	656,257	16,027	390,708	2,541,226
Total assets	3,391,548	93,560	198,783	2,005,298	21,974	436,859	6,148,022
Deposits from customers	(2,476,099)	(294,097)	(613,587)	(333,878)	(108,729)	(1,281,266)	(5,107,656)
Other liabilities	(294,939)	(247,638)	(9)	–	–	(90,605)	(633,191)
Shareholders' funds	–	–	–	–	–	(407,175)	(407,175)
Total liabilities	(2,771,038)	(541,735)	(613,596)	(333,878)	(108,729)	(1,779,046)	(6,148,022)
Interest rate sensitivity gap	620,510	(448,175)	(414,813)	1,671,420	(86,755)	(1,342,187)	–
Cumulative gap	620,510	172,335	(242,478)	1,428,942	1,342,187	–	–

A positive interest rate sensitivity gap exists when more assets than liabilities reprice during a given period. A positive gap position tends to benefit net interest income in an environment where interest rates are rising; however, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivities within the banding periods. The converse is true for a negative interest rate sensitivity gap.

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200bps increase £'000	200bps decrease (not floored at zero) £'000
At 31 December 2016	(3,244)	2,460
At 31 December 2015	471	(882)

26. Fair value of financial instruments

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

	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
31 December 2016					
Assets					
Cash and balances with the Bank of England	434,612				434,612
Loans and advances to banks	65,816			65,816	65,816
Loan and advances to customers	5,865,370			6,093,436	6,093,436
Investment securities	3,226,715	877,226	2,378,037		3,255,263
Liabilities					
Deposits from customers	7,950,579			7,946,687	7,946,687
Deposits from central banks	543,000			543,000	543,000
Repurchase agreements	653,091				653,091
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.

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

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

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

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

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

(e) Deposits from central banks/repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short-dated.

27. Related parties

Key management personnel

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

Key management compensation

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

	2016 £'000	2015 £'000
Short-term benefits	3,891	3,205
Post-employment benefits	–	136
Share-based payment costs	4,108	990
Total	7,999	4,331

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost includes the IFRS 2 charge for the year associated with share options awarded in previous years. The 2016 cost includes the in-year IFRS 2 costs for Share Awards granted to selected key management personnel in recognition of their significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange.

Banking transactions with key management personnel

The Group provides banking services to Directors and other key management personnel and persons connected to them. Loan transactions during the year and the balances outstanding at 31 December 2016 were as follows:

	2016 £'000	2015 £'000
Loans payable to the Group		
Loans outstanding at 1 January	2,529	2,268
Loans relating to former key management personnel	(529)	(143)
Loans outstanding at 1 January for current key management personnel	2,000	2,125
Loans issued during the year	1,250	982
Loan repayments during the year	(59)	(578)
Loans outstanding at 31 December	3,191	2,529
Interest expense on loans payable to the Group	82	58

There were nine (31 December 2015: seven) loans outstanding at 31 December 2016 totalling £3,191,000 (31 December 2015: £2,529,000). Of these, six are residential mortgages, two are secured loans and one is an unsecured loan; all loans were provided on normal commercial terms.

In addition to the loans detailed above the Group has issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel. During the year there were 15 credit cards to senior management in issue (2015: 14) with all outstanding balances at the year end being repaid in January 2017. At 31 December 2016 one current account to key management personnel was overdrawn (2016: none).

Credit card balances outstanding at 31 December 2016 were as follows:

	2016 £'000	2015 £'000
Credit cards outstanding at 31 December	10	40

Deposit balances outstanding at 31 December 2016 were as follows:

	2016 £'000	2015 £'000
Deposits outstanding at 1 January	4,544	4,151
Net amounts deposited	649	393
Deposits outstanding at 31 December	5,193	4,544

27. Related parties continued

Other transactions with related parties

The following transactions were carried out with related parties:

	2016 £'000	2015 £'000
Purchases of services		
– Entity connected to key management personnel	3,156	2,307
– Amounts outstanding as at 31 December owed by Metro Bank	382	151

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 Vernon W. Hill, II, the Non-Executive Chairman.

In order to ensure that the terms of the InterArch arrangements are consistent with those that could be obtained from an independent third party and in accordance with the Articles, the contractual arrangements with InterArch are subject to periodic review by the Group's Audit Committee using periodic benchmarking reviews conducted by independent third parties. The Audit Committee have concluded that the arrangements are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an alternative supplier.

Architectural design services

InterArch provide various architectural design services to the Group, including pre-design, architectural design, interior design, facilities coordination, construction management, landscape architectural, signage, security design and layout and procurement services. The fee structure for each project is based on a fixed percentage of projected hard costs. Certain additional services are provided on an hourly basis. The current agreement terminates on 31 December 2017 unless terminated prior to that in accordance with its terms.

Branding, marketing and advertising

InterArch also provide branding, marketing and advertising services to the Group. The current agreement will terminate on 31 March 2018.

28. Capital management

Capital is held by the Group to protect its depositors, cover its inherent risks, provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, the Group considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

The Group prepares an annual Internal Capital Adequacy Assessment Process document that sets out how Metro Bank identifies and manages the key risks to which it is exposed and details the Group's capital requirements, capital resources and capital adequacy over the planning period.

The Group produces regular reports on the current and forecasted level of capital, as well as the results of stress scenarios, to the Board and the Executive Leadership Team (chaired by the Chief Executive Officer). The key assumptions and risk drivers used to create the stress tests are regularly monitored and reported.

The Group manages capital in accordance with prudential rules issued by the PRA and FCA, in line with the EU Capital Requirements Directive. In June 2013 the European parliament approved new capital reforms (referred to as "CRD IV"), which implements Basel III in Europe. CRD IV legislation has been effective from 1 January 2014. Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements. During the year the Group has complied with all externally imposed capital requirements to which it is subject.

Tier 1 capital	2016 £'000	2015 £'000
Ordinary share capital	–	–
Share premium	1,027,645	629,304
Retained earnings	(230,193)	(213,440)
Intangible assets	(92,515)	(54,243)
Deferred tax asset (CET1 element)	(60,625)	(53,053)
Other reserves	7,083	(8,689)
Total regulatory capital	**651,395**	**299,879**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. 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.

Diluted loss per share has been calculated based on the same loss attributable to ordinary equity holders of Metro Bank and the 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.

	2016	2015
Loss attributable to ordinary equity holders of Metro Bank	(16,753)	(49,197)
Weighted average number of ordinary shares in issue (£'000)	76,791	59,208
Basic and diluted loss per share (pence)	(22)	(83)

30. Investment in subsidiary undertakings

The Group had the following subsidiaries at 31 December 2016:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
SME Invoice Finance Limited	UK	Invoice financing and factoring	100	–
SME Asset Finance Limited	UK	Asset finance	–	100

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Parent Company do not differ from the proportion of ordinary shares held.

Transactions between the Company and Group subsidiaries

	2016 £'000	2015 £'000
– Interest on inter-Company loan with SME Asset/Invoice Finance	2,749	1,724
– Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance	143,457	97,432

31. Country-by-Country Reporting

The Capital Requirements Regulations (Country-by-Country Reporting ("CBCR")) came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the EU Capital Requirements Directive IV ("CRD IV").

The objective of the CBCR requirement is to improve transparency and provide a requirement for institutions in scope to disclose, on a country-by-country basis, information on their activities, turnover, employees, profits and corporate taxes.

Metro Bank PLC and its subsidiaries are all UK registered entities. The Parent Company, Metro Bank PLC, is a credit institution for the purposes of CRD IV and is therefore within the scope of CBCR. The activities of the Group are disclosed on pages 3 to 21 of the Annual Report and Accounts.

For the purposes of CBCR, the appropriate disclosures required are summarised below:

	UK
Number of employees (average full-time equivalent)	2,129
Turnover (£'000)	195,106
Loss before tax (£'000)	(17,198)
Income tax credit (£'000)	445
Corporation Tax paid (£'000)	–

No public subsidies were received during the year.

32. Post balance sheet events

There have been no reportable post balance sheet events.