



Metro Bank PLC

Financial Statements

Year Ended 31 December 2013

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COMPANIES HOUSE

CHAIRMAN'S STATEMENT

For the twelve months ended 31 December 2013

I am proud to report on the fourth financial trading statement for Metro Bank PLC.

We launched Metro Bank in July 2010 to bring a better banking experience to the UK; one that is focused on providing customers with unparalleled levels of service and convenience. Metro Bank is about creating a brand where our customers become FANS who spread the word about their memorable service experience with us. Since launch, we have seen business and personal customers switch to us for exactly this reason, and as a result we have experienced huge levels of growth, with further significant growth in customer accounts, deposits and lending in 2013.

Key Performance Indicator		Actual 2013	Actual 2012	Actual 2011
Customer Accounts		275,000	136,000	48,000
	Annual Growth Rate	102%	183%	433%
Gross Loans (£000)		751,000	168,000	42,000
	Annual Growth Rate	347%	300%	NA
Deposits (£000)		1,315,000	576,000	152,000
	Annual Growth Rate	128%	279%	744%
Loan to deposit ratio		57%	29%	28%
Total Shareholders' Equity (£000)		503,156*	178,202	77,952

*Adjusted for January 2014 Capital Raise

In December we completed raising our fourth tranche of capital, to facilitate our growth and maintain our strong capital base. Such was the demand for shares in this offering that we launched a Follow-On Offer, also oversubscribed, that successfully completed in January 2014. We have now raised a total of £640m to build and grow the bank, with the share price of each successive share offering at a significant premium to the previous offer. This is testament to the strength of the bank's business model, business performance to date, and anticipated growth for the future.

Our core proposition centres on providing our customers with the very best banking experience through every channel. This includes having stores in the most convenient locations, open at the most convenient times for our customers, as well as strong internet and telephone channels. Store expansion through London and the South East remains a vital part of our strategy, and in 2013 our store footprint increased by 60%. To accommodate this substantial growth, we also doubled the size of our workforce from 500 to over 1000 people in 2013. As a result, in the year ending 31 December 2013 we had a planned and expected loss after tax of £41.8 million. This reflects significant investment in building

stores, recruiting and training great people to deliver excellent service to our customers, and further developing infrastructure and systems to enable growth and scale in the years to come. Our longer range financial plan continues to indicate that Q2 2013 will represent the peak quarterly loss, and that quarterly losses will now fall until the bank achieves profitability.

Now in 2014, as we near our fourth anniversary in July, we are proud to report that our growth continues to gather momentum as our store network grows and we continue to deliver unparalleled service and convenience. The new store pipeline for 2014 looks strong and we have just opened our 27th store in Milton Keynes Oakgrove (our second Milton Keynes store) at the end of May. We are consistently opening over 14,000 new accounts a month; deposits increased by 23% in Q1 2014; and lending was up 27%.

As a London business ourselves, we understand and support London's extensive SME network. In fact our successful engagement with London businesses means that business lending currently makes up nearly half of Metro Bank's lending activity. We also acquired a business – SME Invoice Finance – in July 2013, to broaden our offering to our business customers and enable us to further support their needs.

We are also proud to see a growing awareness of Metro Bank and the Metro Bank model driven by our successful stores and active community engagement. A recent independent YouGov survey (March 2014) shows brand recognition across London and the South East continuing to increase, with 70% of London adults familiar with the Metro Bank brand; up from 66% in September 2013.

Much of our success to date is down to the hard work of the management team and their colleagues across the bank. On behalf of the Board, I would like to take this opportunity to thank them for their continued energy and commitment to delivering excellent service to the bank's customers.

The bank's relentless focus on customer service and convenience across all our channels, supported by our flexible IT and powerful AMAZE culture, continues to strongly differentiate us and provide a competitive advantage in the UK market. Management, colleagues and the Board continue to focus on building Metro Bank into a major banking force in the UK. We thank all our shareholders for their strong and continued support as we revolutionise UK banking.

We are thankful as always to our personal, business and private banking customers, who continue to show their support. We remain committed to offering the best in service and convenience to our customers, and look forward to offering a choice and bringing our customer focused ethos to many more people as we continue to grow.

Vernon W. Hill II
Chairman

3 June 2014

COMPANY INFORMATION

Board of Directors

Non Executive Chairman

Vernon W. Hill II

Non Executive Directors

Stuart Bernau

Keith Carby

Lord Flight

Roger Farah

Alastair (Ben) Gunn (Senior Independent Director)

Luke Johnson

Eugene Lockhart

James Reuben

Executive Directors

Craig Donaldson – Chief Executive Officer

Mike Brierley – Chief Financial Officer

Company Secretary

Mike Brierley

Registered Office

One Southampton Row

London

WC1B 5HA

Independent Auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

7 More London Riverside

London

SE1 2RT

Registered Number

6419578

www.metrobankonline.co.uk

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and
the Prudential Regulation Authority
Member of British Bankers Association

DIRECTORS' REPORT

For the year ended 31 December 2013

Financial statements

The Directors present their annual report and the audited financial statements of Metro Bank PLC ("Metro Bank", "the bank") and its subsidiaries (together "the Group") for the year ended 31 December 2013. Comparatives are for the year ended 31 December 2012.

Strategic Report - Principal activities, business review and results

Metro Bank is a deposit-taking and lending institution with a focus on retail and small and medium size commercial customers, offering consistent fair pricing and excellent customer service. Metro Bank is authorised to accept deposits under the Financial Services & Markets Act 2000, has a Consumer Credit Act licence and is a member of the Financial Services Compensation Scheme.

The bank opened its first branch on 29 July 2010 and now has twenty six stores in London (twenty four stores as at December 2013) and the Southeast of England. Customer accounts increased from 136,000 on 31 December 2012 to 275,000 by 31 December 2013.

The operating loss after taxation for the year ended 31 December 2013 is £41,798,000 (December 2012: Loss £34,551,000). The loss is a direct result of continued significant investment across the business in building stores, infrastructure and systems to enable future growth and scale to be achieved.

During the year, the bank issued 22,115,384 A Ordinary shares at £13 per share, for net consideration of £284,308,000. On 21 January 2014, Metro Bank issued a further 7,692,308 new A Ordinary shares at £13 per share, further to an Offer for Subscription on 17 December 2013, for net consideration of £98,580,000.

The number of employees at 31 December 2013 was 1,031 (December 2012: 641).

On 31 July 2013, the Group acquired 100% of the share capital of SME Invoice Finance Limited ("SMEIF") for £15m. The acquisition provides the Group the ability to compete in the SME market by offering comprehensive invoice finance, factoring and asset finance capability.

Future Developments

The bank will continue to add stores organically, to ensure that the operating model and culture remains fully aligned with the customer proposition, and has a further eight high specification stores in development which will open in the London area during 2014. The bank continues to invest heavily in its award winning technology and infrastructure.

Investment in the business

Fixed asset additions in the year of £59,916,000 (December 2012: £26,799,000) and additions to Intangible assets of £9,483,000 (December 2012: £2,856,000) comprised investments in new stores and IT systems and infrastructure. This investment is ongoing and the bank is forecast to spend over £37.1m during 2014 on further stores and enhancing the technology infrastructure.

DIRECTORS' REPORT *continued*

Investment securities

Metro Bank has a portfolio of income earning securities. These investments are in UK Government securities, highly rated covered bonds, mortgage backed securities and corporate bonds. As at 31 December 2013, the value of these investments was £696,434,000 (31 December 2012: £431,220,000).

Customer deposits

A major source of funding for Metro Bank is from retail deposits. Deposit balances were £1,315,389,000 at 31 December 2013 (31 December 2012: £576,284,000).

Going concern

The Directors have made a full assessment of the current state of the balance sheet of Metro Bank and the longer term strategy of the business. Although loss making during the year to 31 December 2013, the Directors are satisfied that Metro Bank has sufficient capital and liquidity resources to continue its expansion plan and that it is appropriate to prepare the Financial Statements on a going concern basis.

Principal risks and uncertainties

The bank seeks to manage all the risks that arise from its activities. There is a formal structure for monitoring and managing risk across the bank comprising a risk appetite agreed by the Board, detailed risk management policies, independent governance and risk oversight. The Board of Directors has ultimate responsibility for setting the firm's strategy, risk appetite and control framework and key risks are regularly reviewed.

Metro Bank has an Audit Committee and a Risk Oversight Committee both of which meet on at least a quarterly basis and are chaired by a non-executive director providing assurance to the Board.

As a result of its normal business activities the bank is exposed to a variety of risks, the most significant of which are detailed below. The bank's Chief Risk Officer is responsible for ensuring each risk is adequately monitored, managed, reported and, where possible, mitigated.

Credit Risk is the risk of loss from a borrower's failure to meet the terms of any contract. The bank has detailed lending policies to ensure credit risk-taking is based on sound credit risk principles, including sector and concentration limits. Credit risk is overseen by the Chief Risk Officer, Credit Committee and the Risk Oversight Committee.

Market Risk is the risk of impact from movements in market prices on the value of assets and liabilities. The bank does not undertake proprietary trading activities and only holds high rated investment securities. Management monitors exposures to price risk on a regular basis. Movements in investment value are monitored on a regular basis.

Liquidity Risk is the risk that the bank is unable to meet its obligations as and when they fall due because of insufficient funds, inability to realise assets held by the bank and/or an inability to raise the required funding from other sources. The bank has assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and an appropriate liquidity buffer is maintained at all times.

DIRECTORS' REPORT *continued*

Interest Rate Risk is the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. Where possible the bank seeks to match the interest rate structure of assets with liabilities, creating a natural hedge.

Both Liquidity Risk and Interest Rate Risk management are undertaken by the bank's Treasury Department and overseen by both the Chief Financial Officer and Asset and Liability Committee.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or exposure to external events. The bank has detailed policies and procedures which are designed to evaluate, monitor and report these risks as well as develop mitigation plans, where appropriate.

Each risk has a defined risk appetite which is supported through documented policies and overseen by a robust governance process. Performance against the risk appetite statements is monitored and reported on a monthly basis to the Board and on a quarterly basis to the Risk Oversight Committee.

Further information on risk management is contained within note 23.

Key performance indicators

The following metrics represent the core key performance indicators for the bank, and focus on its financial strength:

	<u>2013</u>	<u>2012</u>
Customer loan to deposit ratio	57%	29%
Loan loss reserve to total loans	0.44%	0.22%
Capital as %age of risk weighted assets	50%	55%
Equity as %age deposits	31%	31%
Leverage (equity /total assets)	21%	23%

Results and dividends

The results for the year are set out in the Consolidated Statement of comprehensive income on page 10. No dividends are paid or payable in respect of the year ended 31 December 2013 (31 December 2012: £nil).

Creditor payment policy

Metro Bank values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, in a timely manner. It is the bank's policy to pay suppliers as they fall due, in accordance with the negotiated terms of business. Metro Bank had trade creditors at 31 December 2013 of £2,988,000 (31 December 2012: £7,668,000). The trade creditor days figure was 11 at 31 December 2013 (2012: 46).

Political and charitable donations

Metro Bank made £14,000 (2012: £20,000) donations to local, youth, health and animal charities and no political donations (2012: £nil) in the twelve months ended 31 December 2013.

DIRECTORS' REPORT *continued*

Employee involvement

Metro Bank provides employees with information on matters of concern to them, consulting with them through a number of forums, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the bank is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the bank plays a major role in maintaining its focus on the customer. All employees are eligible to participate in our share option schemes.

Diversity

Metro Bank is committed to employment policies, which follow best practice, based on equal opportunities for all employees. We strive to ensure our workforce reflects the diverse communities in which we operate and recognise that diversity is a key part of responsible business strategy in support of our business. The bank gives full and fair consideration to all applications for employment.

Directors

The following served as directors of the bank during the year and up to the date of signing the financial statements:

Vernon Hill
Stuart Bernau
Mike Brierley
Keith Carby
Craig Donaldson
Roger Farah (from 1 February 2014)
Lord Flight
Alastair (Ben) Gunn
Eugene Lockhart
Graeme Hardie (to 1 May 2013)
Luke Johnson
James Reuben

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that year. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;

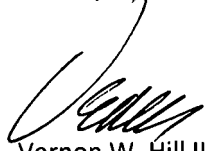
- State whether applicable IFRSs as adopted by the European Union have been followed; subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the Board on 25 March 2014 and was signed on its behalf by:



Vernon W. Hill II
Chairman
25 March 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Metro Bank PLC, comprise:

- the group and parent company statement of financial position as at 31 December 2013;
- the group income statement and statement of comprehensive income for the year then ended;
- the group and parent company statement of cash flows for the year then ended;
- the group and parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from stores not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Director's remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

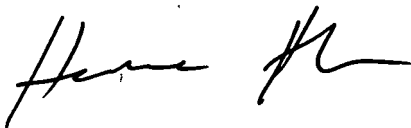
RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Hemione Hudson (Senior Statutory Auditor)
for and on behalf of PriceWaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 March 2014

**Consolidated Statement of comprehensive income
 For the year ended 31 December 2013**

	Notes	Group Year ended 31 December 2013	Group Year ended 31 December 2012
		£'000	£'000
Interest income	3	27,747	10,711
Interest expense		(11,515)	(4,681)
Net Interest Income		16,232	6,030
Fee and commission income		5,680	2,432
Fee and commission expense		(189)	(224)
Net Fee and commission income		5,491	2,208
Net gains on sale of investment securities	4	6,508	1,677
Other income		3,303	1,107
		31,534	11,022
Impairment charges	10	(1,026)	(190)
Operating expenses		(72,320)	(50,332)
Depreciation and amortisation	12,13	(10,369)	(6,228)
		(83,715)	(56,750)
Loss before tax		(52,181)	(45,728)
Taxation	9	10,383	11,177
Loss for the year from continuing operations		(41,798)	(34,551)
Other comprehensive income for the year			
Change in value of available for sale financial assets		(16,091)	8,491
Total comprehensive loss for the year		(57,889)	(26,060)

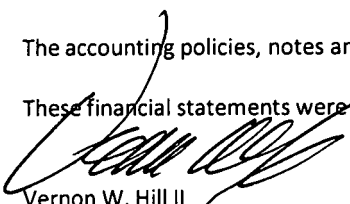
The accounting policies, notes and information on pages 17 to 56 form part of the financial statements.


Consolidated Balance Sheet
As at 31 December 2013

	Notes	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Assets			
Cash and balances with the Bank of England		238,979	46,667
Loans and advances to banks	23	24,205	27,441
Loans and advances to customers	10,23	751,058	167,755
Investment securities	11,23	696,434	431,220
Intangible assets	12	23,830	10,945
Property, Plant and Equipment	13	104,506	53,554
Prepayments and accrued income		4,983	1,854
Deferred tax asset	9	35,773	25,277
Other assets	15	11,800	6,438
Total assets		1,891,568	771,151
Liabilities			
Deposits from customers	23	1,315,389	576,284
Other liabilities	16	171,166	16,665
Total liabilities		1,486,555	592,949
Shareholders' Equity			
Called up share capital	17	-	-
Share premium	17	530,463	246,155
Retained earnings	19	(118,686)	(76,888)
Other reserves		(6,764)	8,935
Total shareholders' equity		405,013	178,202
Total equity and liabilities		1,891,568	771,151

The accounting policies, notes and information on pages 17 to 56 form part of the financial statements.

These financial statements were approved by the Board of Directors on 25 March 2014 and were signed on its behalf by:


Vernon W. Hill II
Chairman


Craig Donaldson
Chief Executive Officer


Mike Brierley
Chief Financial Officer

**Company Balance Sheet
 As at 31 December 2013**

	Notes	Company 31 December 2013 £'000	Company 31 December 2012 £'000
Assets			
Cash and balances with the Bank of England		238,979	46,667
Loans and advances to banks		24,157	27,441
Loans and advances to customers	10	702,665	167,755
Investment securities	11,23	696,434	431,220
Investment in subsidiaries	26	15,000	-
Intangible assets	12	19,115	10,945
Property, Plant and Equipment		104,448	53,554
Prepayments and accrued income		4,669	1,854
Deferred tax asset		35,660	25,277
Other assets	15	49,065	6,438
Total assets		1,890,192	771,151
Liabilities			
Deposits from customers	23	1,315,389	576,284
Other liabilities	16	170,488	16,665
Total liabilities		1,485,877	592,949
Shareholders' Equity			
Called up share capital	17	-	-
Share premium	17	530,463	246,155
Retained earnings	19	(119,384)	(76,888)
Other reserves		(6,764)	8,935
Total shareholders' equity		404,315	178,202
Total equity and liabilities		1,890,192	771,151

**Consolidated Cash flow statement
For the year ended 31 December 2013**

	Notes	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		(52,181)	(45,728)
Adjustments for:			
Depreciation and amortisation of intangible and tangible assets	12,13	10,369	6,228
Share option reserve	5	392	286
Gain on sale of securities	4	(6,508)	(1,677)
Fair value gain on derivative financial instruments		6	-
Accrued interest on securities	11	(4,448)	(4,085)
Changes in operating assets		(591,913)	(129,863)
Changes in operating liabilities		893,606	430,646
Net cash flows from operating activities		249,323	255,807
Cash flows from investing activities			
Sale of investment securities		368,130	104,305
Purchase of investment securities		(638,479)	(439,961)
Purchase of property, plant and equipment	13	(59,983)	(26,799)
Purchase of intangible assets	12	(14,223)	(2,856)
Net cash flows from investing activities		(344,555)	(365,311)
Cash flows from financing activities			
Share issues, net of costs	17	284,308	126,024
Net cash flows from financing activities		284,308	126,024
Net increase in cash and cash equivalents		189,076	16,520
Cash and cash equivalents at start of period		74,108	57,588
Cash and cash equivalents at end of period		263,184	74,108
Loss before tax includes:			
Interest received		27,747	10,711
Interest paid		11,515	4,681
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		238,979	46,667
Loans and advances to banks	10,23	24,205	27,441
		263,184	74,108

Company Cash flow statement
For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		(53,119)	(45,728)
Adjustments for:			
Depreciation and amortisation of intangible and tangible assets		10,324	6,228
Share option reserve	5	392	286
Gain on sale of securities	4	(6,508)	(1,677)
Fair value gain on derivative financial instruments		6	-
Accrued interest on securities	11	(4,448)	(4,085)
Changes in operating assets		(580,118)	(129,863)
Changes in operating liabilities		892,928	430,646
Net cash flows from operating activities		259,457	255,807
Cash flows from investing activities			
Acquisition of subsidiary	26	(15,000)	-
Sale of investment securities		368,130	104,305
Purchase of investment securities		(638,479)	(439,961)
Purchase of property, plant and equipment		(59,905)	(26,799)
Purchase of intangible assets	12	(9,483)	(2,856)
Net cash flows from investing activities		(354,737)	(365,311)
Cash flows from financing activities			
Share issues, net of costs	17	284,308	126,024
Net cash flows from financing activities		284,308	126,024
Net increase in cash and cash equivalents		189,028	16,520
Cash and cash equivalents at start of period		74,108	57,588
Cash and cash equivalents at end of period		263,136	74,108
Loss before tax includes:			
Interest received		26,891	10,711
Interest paid		11,495	4,681
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		238,979	46,667
Loans and advances to banks		24,157	27,441
		263,136	74,108

**Consolidated Statement of changes in equity
 For the year ended 31 December 2013**

	Share capital	Share premium	Retained earnings	Available for sale reserve	IFRS 2 share option reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2013	-	246,155	(76,888)	8,571	364	178,202
Share issue	-	284,308	-	-	-	284,308
Net loss for the year	-	-	(41,798)	-	-	(41,798)
Other comprehensive income, net of tax	-	-	-	(16,091)	-	(16,091)
Share options at fair value	-	-	-	-	392	392
Balance as at 31 December 2013	-	530,463	(118,686)	(7,520)	756	405,013
Balance at 1 January 2012	-	120,131	(42,337)	80	78	77,952
Share issue	-	126,024	-	-	-	126,024
Net loss for the year	-	-	(34,551)	-	-	(34,551)
Other comprehensive income, net of tax	-	-	-	8,491	-	8,491
Share options at fair value	-	-	-	-	286	286
Balance as at 31 December 2012	-	246,155	(76,888)	8,571	364	178,202
Notes	17	17	19	11		

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

**Company Statement of changes in equity
 For the year ended 31 December 2013**

	Share capital	Share premium	Retained earnings	Available for sale reserve	IFRS 2 share option reserve	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2013	-	246,155	(76,888)	8,571	364	178,202
Share issue	-	284,308	-	-	-	284,308
Net loss for the year	-	-	(42,496)	-	-	(42,496)
Other comprehensive income, net of tax	-	-	-	(16,091)	-	(16,091)
Share options at fair value	-	-	-	-	392	392
Balance as at 31 December 2013	-	530,463	(119,384)	(7,520)	756	404,315
Balance at 1 January 2012	-	120,131	(42,337)	80	78	77,952
Share issue	-	126,024	-	-	-	126,024
Net loss for the year	-	-	(34,551)	-	-	(34,551)
Other comprehensive income, net of tax	-	-	-	8,491	-	8,491
Share options at fair value	-	-	-	-	286	286
Balance as at 31 December 2012	-	246,155	(76,888)	8,571	364	178,202
Notes	17	19	19	11		

Notes to the financial statements

1. General information

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

2. Summary of significant accounting policies

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 periods presented, unless otherwise stated.

2.1 Basis of preparation

The Group's consolidated financial statements for the year 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements comprise the statement of comprehensive income, the Balance Sheet, the statement of changes in equity, the cash flow statement and the notes.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, which have been measured at fair value.

The disclosures on risks from financial instruments are presented in Note 23.

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, 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly.

2.1.1 Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

IFRS7, Amendment to, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

b) New standards, amendments and interpretations which may have an effect on the financial statements but are not applicable for the year ending 31 December 2013 and have not been applied in preparing these financial statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces those elements of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition and the classification. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The bank is currently assessing the impact of IFRS9.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's

identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using 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, which is the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in 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 exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in

amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in statement of comprehensive income, and other changes in the carrying amount, except impairment, are recognised in equity.

2.4 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. Securities purchased under agreements to resell ('reverse repos') are recorded as other liabilities. 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.

2.4.1 Financial assets

The Group allocates financial assets to the following IAS 39 categories: loans and receivables; 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, other than:

- (a) those that the bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the bank upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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 or as investment securities. Interest on loans is included in the income statement and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'Loan impairment charges'.

(b) 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 the 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. However, 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.

(c) Recognition

The bank 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.

2.4.2 Financial liabilities

The bank's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers. Financial liabilities are derecognised when extinguished.

2.4.3 Determination of fair value

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.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.4.4 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 (that is, if substantially all the risks and rewards have not been transferred, the bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

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

2.5 Reclassification of financial assets

The bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the bank 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. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases

in estimates of cash flows adjust effective interest rates prospectively.

2.6 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.

2.7 Interest income and expense

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

The effective interest 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 bank 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 rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.8 Fee and commission income

Fees and commissions are earned from a wide range of services provided by the bank 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 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.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that the bank uses to determine that there is objective evidence of an impairment loss include: significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise

consider; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including: adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. 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. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a bank of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the bank and historical loss experience for assets with credit risk characteristics similar to those in the bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in

unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between loss estimates and actual loss experience.

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. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (hold to maturity and loans and receivables categories) 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 (such as an improvement in the debtor's credit rating), 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 bank 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.

2.10 Share-based payments

The grant date fair value of options granted to employees is recognised as an employee expense over the period in which the employees 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 employee 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 the options granted is determined using an option pricing model, which takes into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

2.11 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 bank.

2.12 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The leases entered into by the bank 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.

2.13 Property, plant and equipment

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The bank uses the following annual rates in calculating depreciation:

<i>Leasehold property</i>	lower of the remaining life of the lease or the useful life of the asset
<i>Computers and similar equipment</i>	20% - 33%
<i>Fixtures and fittings and other equipment</i>	20%

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.

When deciding on depreciation rates and methods, the principal factors the bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, the bank estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful economic life.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.14 Intangible assets

The accounting standard that the bank applies in accounting for intangible assets is IAS 38 Intangible Assets.

Intangible assets include internally generated software, licences and other contracts and intangibles relating to the core banking engine. They are initially recognised when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and where it is probable that future economic benefits attributable to the assets will flow from their use.

Intangible assets are stated at cost less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 5-20 years. The useful life is reviewed annually to determine whether events and circumstances continue to support the useful life assessment.

At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The bank uses the following annual rates in calculating amortisation:

<i>Other banking software</i>	10-20%
<i>Core Banking engine</i>	5%
<i>Customer Contracts</i>	10%

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Metro Bank PLC'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 (CGU), 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 impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.15 Income tax

(a) Current income tax

Income tax is calculated on the basis of the applicable tax law and is recognised as an expense or income for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity.

Where the bank 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 provided in full, using the liability method, on 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 substantially 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 and depreciation of property, plant and equipment.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.16 Employee benefits

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

2.17 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.

2.18 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

2.19 Critical Accounting Estimates

The bank's financial statements and its financial result are influenced by accounting policies assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the bank's results and financial situation due to their materiality.

(a) Fair value of financial instruments

The fair value of financial instruments, where quoted prices are not readily available, are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them.

(b) 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 2013, the Group recognised a deferred tax asset of £35.8 million (2012 £25.3 million) in respect of tax losses carried forward. The increase reflects the taxable losses generated by the continued significant investment by the bank 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 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 bank 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 Bank 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.

(c) Share-based payment

IFRS 2 requires recognition of an expense for share options at the fair value on the grant date (equity-settled plans). For share options granted to employees, the bank estimates the fair value of the equity instruments granted using a valuation technique, which is consistent with generally accepted valuation methodologies.

3. Interest Income

	2013	2012
	£'000	£'000
Investment securities	10,513	6,845
Loans and advances to customers	17,234	3,866
Total Interest Income	27,747	10,711

4. Net gains on investment securities

	2013	2012
	£'000	£'000
Net gain on disposals	6,508	1,677
	6,508	1,677

5. Staff costs

	2013	2012
	£'000	£'000
Salaries & benefits	30,439	18,697
Social security costs	3,371	1,979
Pension costs	1,672	1,135
Share based payment costs	392	286
	35,874	22,097

The average monthly number of persons employed by the bank during the period was 878 (2012: 487).

	2013	2012
Client facing	628	317
Non-client facing	250	170
Total	878	487

6. Directors' emoluments

	2013 £'000	2012 £'000
The remuneration of the Directors of the company was:		
Emoluments (including benefits in kind)	1,282	1,626
Share based payment cost	180	140
Contributions to individual personal pension plans	60	108
	<u>1,522</u>	<u>1,874</u>

During the year the bank made contributions to individual personal pension plans in respect of 2 directors (2012: 3 directors).

The above amounts for remuneration include the following in respect of the highest paid director.

	2013 £'000	2012 £'000
Emoluments	447	514
Share based payment cost	91	10
Contributions to individual personal pension plan	39	57
	<u>577</u>	<u>581</u>

7. Pension costs and commitments

The bank operates a defined contribution arrangement for employees. Metro Bank made payments amounting to £1,605,375 (December 2012: £1,135,297) to employees' individual personal pension plans during the year.

8. Loss on ordinary activities before taxation

	2013 £'000	2012 £'000
This is arrived at after charging / (crediting):		
Operating lease rentals	7,986	5,126
Fees payable to the company's auditors for audit services	257	128
Fees payable to the company's auditors for tax services	40	60
Fees payable to the company's auditors for other services	-	44
Exchange differences	22	17

9. Taxation

	Group 2013 £'000	Group 2012 £'000
Current tax:		
UK corporation tax	-	-
Adjustment in respect of prior years	-	-
Total current tax	-	-
Deferred tax:		
Current year	11,430	11,999
Adjustment in respect of prior years	(1,047)	(822)
Total deferred taxation	10,383	11,177
Total taxation	10,383	11,177

Total tax paid in relation to income during the year was £nil (December 2012: £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:

	2013 £'000
Loss before tax	(52,181)
Loss on ordinary activities multiplied by standard rate in the UK (20%)	(10,436)
Tax effects of:	
Expenses not deductible for tax purposes	2,074
Capital allowances and other timing differences	(6,409)
Re-adjustment of deferred tax - change in the UK tax rate	3,297
Adjustment in respect of prior years	1,091
Tax charge	(10,383)

Note: 20% has been used as the effective tax rate in the analysis above as this is the substantially enacted rate expected to apply when the deferred tax asset is realised.

9. Taxation (continued)

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 (see page 26).

Analysis of deferred tax balance

	31 December 2013	31 December 2012
	£'000	£'000
Losses carried forward(at 20% tax rate 2012: 23% tax rate)	35,869	22,459
Capital allowances	(96)	2,818
	<u>35,773</u>	<u>25,277</u>

The gross movement on the deferred income tax account is as follows:

	31 December 2013	31 December 2012
	£'000	£'000
As 1 January	25,277	14,100
Acquisition of subsidiary	113	-
Income statement charge	10,383	11,177
At 31 December	<u>35,773</u>	<u>25,277</u>

10. Loans and advances to customers

Prior year comparatives have been re-stated to aid comparison with the current year disclosure of loans past due but not impaired.

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Gross Loans and advances to customers	754,340	168,132
Less: allowance for impairment	(3,282)	(377)
Net Loans and advances to customers	751,058	167,755
Amounts include:		
Repayable on demand or at short notice	15,336	6,549

	Group 2013		Group 2012	
	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 or impaired	701,588	24,205	154,109	27,441
Past due but not impaired	46,132	-	12,511	-
Individually impaired	3,525	-	-	-
Collectively impaired	3,095	-	1,512	-
Total	754,340	24,205	168,132	27,441
Less: allowance for impairment	(3,282)	-	(377)	-
Total	751,058	24,205	167,755	27,441
Individually impaired	(1,970)	-	-	-
Portfolio impaired	(1,312)	-	(377)	-
Total	(3,282)	-	(377)	-

	Group 2013 £'000	Group 2012 £'000
At 1 January	(377)	(187)
Acquisition of Subsidiary	(1,879)	-
Reversal of impairment	-	-
Increase in impairment allowance	(1,026)	(190)
At 31 December	(3,282)	(377)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group internal monitoring process. As at 31 December none of these loans and advances are subject to special monitoring.

10. Loans and advances to customers (continued)

Past due but not impaired

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

31 December 2013

Group and Company

	Mortgages £'000	Corporate £'000	Total £'000
Past due 30-60 days	17,237	18,734	35,971
Past due 60-90 days	2,915	1,073	3,988
Over 90 days	-	6,173	6,173
Total	20,152	25,980	46,132

31 December 2012

Group and Company

	Mortgages £'000	Corporate £'000	Total £'000
Past due 30-60 days	9,675	762	10,437
Past due 60-90 days	2,074	-	2,074
Over 90 days	-	-	-
Total	11,749	762	12,511

10. Loans and advances to customers (continued)

	Company 31 December 2013 £'000	Company 31 December 2012 £'000
Gross Loans and advances to customers	704,056	168,132
Less: allowance for impairment	<u>(1,391)</u>	<u>(377)</u>
Net Loans and advances to customers	702,665	167,755

Amounts include:

Repayable on demand or at short notice	<u>15,336</u>	<u>6,549</u>
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	Company 2013		Company 2012	
	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 or impaired	654,763	24,157	167,212	27,441
Past due but not impaired	46,132	-	920	-
Individually impaired	66	-	-	-
Collectively impaired	3,095	-	-	-
Total	704,056	24,157	168,132	27,441
Less: allowance for impairment	<u>(1,391)</u>	<u>-</u>	<u>(377)</u>	<u>-</u>
Total	702,665	24,157	167,755	27,441
Individually impaired	(79)	-	-	-
Portfolio impaired	<u>(1,312)</u>	<u>-</u>	<u>(377)</u>	<u>-</u>
Total	(1,391)	-	(377)	-

	Company 2013 £'000	Company 2012 £'000
At 1 January	(377)	(187)
Reversal of impairment	-	-
Increase in impairment allowance	<u>(1,014)</u>	<u>(190)</u>
At 31 December	(1,391)	(377)

10. Loans and advances to customers (continued)

	Group 31 December 2013 £'000	Company 31 December 2013 £'000	Group and Company 31 December 2012 £'000
Individual (retail customers):			
-Overdraft	10,379	10,379	1,931
-Credit Cards	4,225	4,225	2,224
-Term Loans	6,863	6,863	3,725
-Mortgages	370,495	370,495	62,789
Corporate:			
-Overdraft	6,808	6,808	2,644
-Credit Cards	330	330	98
-Term Loans	355,240	304,956	94,721
Total loans to customer	<u>754,340</u>	<u>704,056</u>	<u>168,132</u>

11. Investment securities

	Held to Maturity £'000	Available for Sale £'000	Loans & Receivables £'000	Total £'000
As at 1 Jan 2013	-	431,220	-	431,220
Additions at cost	-	638,479	-	638,479
Disposals at cost	-	(370,193)	-	(370,193)
Fair Value changes	-	(7,520)	-	(7,520)
As at 31 Dec 2013 (excluding accrued interest)	-	691,986	-	691,986
Accrued interest	-	4,448	-	4,448
As at 31 Dec 2013 (including accrued interest)	-	696,434	-	696,434
As at 1 Jan 2012	-	75,311	6,000	81,311
Additions at cost	-	439,961	-	439,961
Disposals at cost	-	(96,708)	(6,000)	(102,708)
Fair Value changes	-	8,571	-	8,571
As at 31 Dec 2012 (excluding accrued interest)	-	427,135	-	427,135
Accrued interest	-	4,085	-	4,085
As at 31 Dec 2012 (including accrued interest)	-	431,220	-	431,220

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

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and

11. Investment securities (continued)

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).

	2013 £'000	2012 £'000
Investment Securities		
- Level 1 Quoted market prices	214,168	188,663
- Level 2 Valuation technique; observable inputs	482,266	242,557
	<u>696,434</u>	<u>431,220</u>

12. Intangible assets

Group	Goodwill	Customer Contracts	Software development costs	Total
2013	£'000	£'000	£'000	£'000
<i>Cost or valuation</i>				
1 January 2013	-	-	12,902	12,902
Additions	-	-	9,483	9,483
Acquisition of subsidiary	4,140	600	-	4,740
Disposals	-	-	-	-
31 December 2013	<u>4,140</u>	<u>600</u>	<u>22,385</u>	<u>27,125</u>
<i>Amortisation</i>				
1 January 2013	-	-	1,957	1,957
Disposals	-	-	-	-
Charge for the year	-	25	1,313	1,338
31 December 2013	<u>-</u>	<u>25</u>	<u>3,270</u>	<u>3,295</u>
Net book value	<u>4,140</u>	<u>575</u>	<u>19,115</u>	<u>23,830</u>

12. Intangible assets (continued)

Company			Software development costs	Total
2013	Goodwill	Customer Contracts	£'000	£'000
<i>Cost or valuation</i>	£'000	£'000	£'000	£'000
1 January 2013	-	-	12,902	12,902
Additions	-	-	9,483	9,483
Acquisition of subsidiary	-	-	-	-
Disposals	-	-	-	-
31 December 2013	-	-	22,385	22,385
<i>Amortisation</i>				
1 January 2013	-	-	1,957	1,957
Disposals	-	-	-	-
Charge for the year	-	-	1,313	1,313
31 December 2013	-	-	3,270	3,270
Net book value	-	-	19,115	19,115
Group and Company			Software development costs	Total
2012	Goodwill	Customer Contracts	£'000	£'000
<i>Cost or valuation</i>	£'000	£'000	£'000	£'000
1 January 2012	-	-	10,046	10,046
Additions	-	-	2,856	2,856
Acquisition of subsidiary	-	-	-	-
Disposals	-	-	-	-
31 December 2012	-	-	12,902	12,902
<i>Amortisation</i>				
1 January 2012	-	-	1,264	1,264
Disposals	-	-	-	-
Charge for the year	-	-	693	693
31 December 2012	-	-	1,957	1,957
Net book value	-	-	10,945	10,945

Intangible assets are amortised over their useful economic lives. The useful life is reviewed annually to determine whether events and circumstances continue to support the useful life assessment.

This change of estimate has been accounted for prospectively with the effect of the change being recognised in the current and future periods.

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 cash generating unit; of the total balance of £4m (2012: £0), £4m, or 100 per cent of the total has been allocated to SME Invoice Finance Limited.

The recoverable amount of SME Invoice Finance Limited has also 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 five-year period and a discount rate of 14.3 per cent. The cash flows beyond the five-year period are extrapolated using a growth rate of 2.5 per cent. 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.

13. Property, plant and equipment

2013

	Leasehold property £'000	Land £'000	Fixtures fittings and equipment £'000	Computers £'000	Total £'000
<i>Cost or valuation</i>					
1 January 2013	44,588	-	6,451	12,022	63,061
Acquisition of Subsidiary	6	-	8	53	67
Additions	40,852	8,388	4,699	5,977	59,916
Disposals	-	-	-	-	-
31 December 2013	85,446	8,388	11,158	18,052	123,044
<i>Depreciation</i>					
1 January 2013	3,362	-	1,577	4,568	9,507
Disposals	-	-	-	-	-
Charge for the year	3,369	-	1,521	4,141	9,031
31 December 2013	6,731	-	3,098	8,709	18,538
Net book value	78,715	8,388	8,060	9,343	104,506

2012

	Leasehold property £'000	Land £'000	Fixtures fittings and equipment £'000	Computers £'000	Total £'000
<i>Cost or valuation</i>					
1 January 2012	25,082	-	3,422	7,758	36,262
Additions	19,506	-	3,029	4,264	26,799
Disposals	-	-	-	-	-
31 December 2012	44,588	-	6,451	12,022	63,061
<i>Depreciation</i>					
1 January 2012	1,329	-	542	2,101	3,972
Disposals	-	-	-	-	-
Charge for the year	2,033	-	1,035	2,467	5,535
31 December 2012	3,362	-	1,577	4,568	9,507
Net book value	41,226	-	4,874	7,454	53,554

Only Group prepared for this disclosure note as the difference with Company deemed not material.

14. Future capital expenditure

At 31 December 2013 there was £4,891,000 capital expenditure authorised but not contracted for or contracted but not provided for (December 2012: £4,461,000).

15. Other assets

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Refundable collateral	4,563	1,693
Other	7,237	4,745
	11,800	6,438

	Company 31 December 2013 £'000	Company 31 December 2012 £'000
Refundable collateral	4,563	1,693
Other	6,933	4,745
Amounts owed by group undertakings	37,569	-
	49,065	6,438

16. Other liabilities

	Group 31 December 2013 £'000	Group 31 December 2012 £'000
Trade creditors	2,988	7,668
Other taxation and social security costs	2,425	1,049
Repurchase agreements	143,816	-
Other liabilities	21,937	7,948
	171,166	16,665

	Company 31 December 2013 £'000	Company 31 December 2012 £'000
Trade creditors	2,906	7,668
Other taxation and social security costs	2,200	1,049
Repurchase agreements	143,816	-
Other liabilities	21,566	7,948
	170,488	16,665

17. Called up share capital

A Ordinary shares

As at 31 December 2013, the bank had issued 51,515,384 A Ordinary shares of 0.0001 pence. During the year, the bank issued 22.12 million A Ordinary shares, for net consideration of £284.30 million.

B Ordinary shares

As at 31 December 2013, the bank had issued 1 million B Ordinary shares of 0.0001 pence to employees, consultants and non-executive directors.

B Ordinary Shares are part of the Company's long term incentive arrangements and give certain employees, Non-Executive Directors and consultants the opportunity to share in the value of Metro Bank to the extent that the value of Metro Bank at the time of a Realisation Event (being a Quotation, Sale or Takeover Offer) exceeds the Hurdle Price. The Hurdle Price is the initial placing proceeds of £75m raised in March 2010, plus a sum equal to interest on that amount at the rate of eight per cent. per annum (compounded annually) until the date on which a Realisation Event occurs (as adjusted by the Board in accordance with the Articles from time to time).

If the Hurdle Price is met at the time of a Realisation Event, the B Ordinary Shares will share in the value of Metro Bank in excess of the Hurdle Price on a pro rata basis with the A Ordinary Shares. This will be achieved by the conversion of an appropriate proportion of the B Ordinary Shares, by reference to the Hurdle Price, into Deferred B Shares with no value. On a Quotation, Sale or Takeover Offer, each B Ordinary Share will therefore be worth the same price as an A Ordinary Share (following the conversion of some of the B Ordinary Shares into Deferred B Shares). If the Hurdle Price is not met at the time of a Realisation Event, the B Ordinary Shares will convert into Deferred B Shares with no value.

	31 December 2013 £'000	31 December 2012 £'000
Called up ordinary share capital, allotted and fully paid		
At beginning of period	-	-
Issued	-	-
At end of period	<u>-</u>	<u>-</u>

	31 December 2013 £'000	31 December 2012 £'000
Share premium account		
At beginning of period	246,155	120,131
Issued	284,308	126,024
At end of period	<u>530,463</u>	<u>246,155</u>

18. Share Options

The bank offers share options to directors and employees. The exercise price of the granted options is equal to the estimated market price of the shares at the date of the grant. Options vest over three to five years and have a contractual option term of ten years. The bank has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows (rounded to the nearest thousand):

	2013		2012	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
At 1 January	334,000	9.70	106,000	9.00
Granted	345,000	12.00	246,000	10.00
Exercised	-	-	-	-
Lapsed	(35,000)	9.94	(18,000)	-
At 31 December	<u>644,000</u>	<u>10.90</u>	<u>334,000</u>	<u>9.70</u>

Share options outstanding at the end of the year were as follows:

Expiry	Exercise price	Number	Vesting Period	Vesting Period Ends
7 October 2021	£9.00	91,000	Three years	7 October 2014
31 October 2022	£10.00	210,000	Three years	31 October 2015
11 November 2023	£12.00	343,000	Five years	11 November 2018

Share options were granted on 11 November 2013 at a price of £12.00 per share and expire on 11 November 2023. The fair value of options granted during the year is determined by using the Black-Scholes valuation model and was £1,552,000 (2012: £605,000). The significant inputs into the model were share prices of £12.00, the exercise price shown above, volatility of expected share price returns of 46%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 1.24%. The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other high street banks. The weighted average life of share options outstanding at 31 December 2013 was 9.4 years.

19. Reconciliation of movements in retained earnings

	Group 2013 £'000	Group 2012 £'000
At 1 January	(76,888)	(42,337)
Loss for the year	(41,798)	(34,551)
At 31 December 2013	(118,686)	(76,888)

	Company 2013 £'000	Company 2012 £'000
At 1 January	(76,888)	(42,337)
Loss for the year	(42,496)	(34,551)
At 31 December 2013	(119,384)	(76,888)

20. Financial commitments

At 31 December 2013, Metro Bank had irrevocable undrawn loan facilities granted to retail and commercial customers of £144.2m (2012: £89.8m).

In addition the bank has, as part of its retail and commercial operations, commitments of £42.6m (2012:£19.4m) 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 bank, subject to notice requirements and given their nature are not expected to be drawn down to the full level of exposure.

21. Capital and leasing commitments

The bank leases various offices and stores under non-cancellable operating lease arrangements. 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:

	2013 £'000	2012 £'000
Amounts falling due:		
Within one year	9,953	7,672
Between one and five years	39,027	30,687
After five years	126,075	84,641
	175,055	123,000

22. Assets and liabilities denominated in foreign currency

As at 31 December 2013, there were assets of £24,799,000 (December 2012: £16,051,000) and liabilities of £28,844,000 (December 2012: £15,542,000) denominated mainly in US Dollars and Euros.

23. Financial instruments

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

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

Credit Risk

The bank only invests in high quality liquid debt instruments as required by the bank's Securities Trading and Investment Policy. The analysis below details the credit rating of the securities as at 31 December 2012 and 31 December 2013.

31 December 2013

Credit Rating	Designated at fair value
AAA	377,804
AA- to AA+	247,410
A- to A+	45,874
Lower than A-	25,346
Unrated	-
Total	696,434

31 December 2012

Credit Rating	Designated at fair value
AAA	359,105
AA- to AA+	72,115
A- to A+	-
Lower than A-	-
Unrated	-
Total	431,220

23. Financial instruments (continued)

The bank has pledged £315.9m (2012: £34.2m) of AA/AAA rated securities as encumbered collateral which can be called upon in the event of default. £313.6m (2012: £28.8m) are pledged to the Bank of England through the banks participation in the Funding for Lending Scheme ("FLS").

The bank has drawn down £264.9m as participants of the FLS program, of which £146.8m has been encumbered through repurchase agreements.

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

At 31 December 2013	Maximum Exposure £'000	Collateral £'000	Net exposure £'000
Loans and advances to banks	24,205	-	24,205
Loans and advances to customers:			
- Loans to individuals (note 10)	391,962	(312,235)	79,727
- Loans to corporate entities (note 10)	362,378	(243,361)	119,017
Financial assets designated at fair value (note 11)	696,434	-	696,434
Other Assets (note 15)	11,800	-	11,800
	1,486,779	(555,596)	931,183
Credit risk exposures relating to off-balance sheet items are as follows:			
Loan commitments and other credit related obligations	193,434	-	193,434
	1,680,213	(555,596)	1,124,617
At 31 December 2012	Maximum Exposure £'000	Collateral £'000	Net exposure £'000
Loans and advances to banks	27,441	-	27,441
Loans and advances to customers:			
- Loans to individuals (see note 10)	70,669	(66,907)	3,762
- Loans to corporate entities (see note 10)	97,463	(78,049)	19,414
Financial assets designated at fair value	431,220	-	431,220
Other Assets	6,438	-	6,438
	633,231	(144,956)	488,275
Credit risk exposures relating to off-balance sheet items are as follows:			
Loan commitments and other credit related obligations	109,255	-	109,255
	742,486	(144,956)	597,530

As shown above, 51% (2012: 31%) of the total maximum exposure is derived from loans and advances to banks and customers; 46% (2012: 68%) represents investments in high quality debt securities.

23. Financial instruments (continued)

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

- 54% (2012: 83%) of the debt securities are AAA rated and 35% (2012: 17%) are AA rated;
- Covered bonds, residential mortgage backed securities and mortgage loans are backed by collateral;
- Over 99% (2012: 99%) of the loans and advances portfolio are considered to be unimpaired.

Liquidity risk

The bank quantifies its liquidity risk exposures on an ongoing basis under a variety of market wide and idiosyncratic liquidity stress scenarios. The bank maintains, at all times, a stock of liquid assets that are of sufficient quality and quantity so as to be able to withstand these liquidity stress scenarios, in a manner consistent with the bank's liquidity risk appetite.

Expected maturity dates of the bank'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 bank's operations and liquidity needs because of the broad base of customers both numerically and by depositor type.

23. Financial instruments (continued)

The tables below sets out the contractual maturity of assets and liabilities:

31 December 2013	No Contractual maturity £'000	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
Cash and balances at central banks	231,496	-	-	-	-	-	7,483	238,979
Loans to banks	24,205	-	-	-	-	-	-	24,205
Loans to customers	23,615	80,854	32,574	56,530	395,985	164,782	(3,282)	751,058
Investments	-	301	4,749	34,374	487,065	169,945	-	696,434
Total financial assets	279,316	81,155	37,323	90,904	883,050	334,727	4,201	1,710,676
Other assets	-	-	-	-	-	-	180,892	180,892
Total assets	279,316	81,155	37,323	90,904	883,050	334,727	185,093	1,891,568
Customer accounts	(909,627)	(110,393)	(55,824)	(169,980)	(69,565)	-	-	(1,315,389)
Repurchase agreements	-	(34,890)	(54,193)	(54,733)	-	-	-	(143,816)
Other liabilities	-	-	-	-	-	-	(27,350)	(27,350)
Total financial liabilities	(909,627)	(145,283)	(110,017)	(224,713)	(69,565)	-	(27,350)	(1,486,555)
Capital	-	-	-	-	-	-	(405,013)	(405,013)
Total liabilities	(909,627)	(145,283)	(110,017)	(224,713)	(69,565)	-	(432,363)	(1,891,568)
Cumulative liquidity gap	(630,311)	(694,439)	(767,133)	(900,942)	(87,457)	247,270	-	-

23. Financial instruments (continued)

31 December 2012	No Contractual maturity £'000	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
Cash and balances at central banks	42,782	-	-	-	-	-	3,885	46,667
Loans to banks	27,441	-	-	-	-	-	-	27,441
Loans to customers	6,950	7,347	6,526	12,622	96,905	37,405	-	167,755
Investments	-	-	26,998	-	185,220	219,002	-	431,220
Total financial assets	77,173	7,347	33,524	12,622	282,125	256,407	3,885	673,083
Other assets	-	-	-	-	-	-	98,068	98,068
Total assets	77,173	7,347	33,524	12,622	282,125	256,407	101,953	771,151
Customer accounts	(327,506)	(83,924)	(32,083)	(85,021)	(47,750)	-	-	(576,284)
Other liabilities	-	-	-	-	-	-	(16,665)	(16,665)
Total financial liabilities	(327,506)	(83,924)	(32,083)	(85,021)	(47,750)	-	(16,665)	(592,949)
Capital	-	-	-	-	-	-	(178,202)	(178,202)
Total liabilities	(327,506)	(83,924)	(32,083)	(85,021)	(47,750)	-	(194,867)	(771,151)
Cumulative liquidity gap	(250,333)	(326,910)	(325,469)	(397,868)	(163,493)	92,914	-	-

23. Financial instruments (continued)

Market risk

Price risk

The bank does not undertake proprietary trading activities and holds only high grade investment securities. Management monitors exposures to price risk on a regular basis. Movements in investment value are monitored on a regular basis.

Interest rate risk

The bank has exposure to interest rate risk, to the extent that there are differences in timing of the interest rate repricing of its financial instrument assets and liabilities. The bank manages this risk by matching the timing of the interest rate repricing to within the bank's interest rate risk appetite. The bank seeks to do so primarily through the use of natural hedges, but may use derivatives for this purpose from time-to-time.

The table below summarises the repricing mismatches as at 31 December 2013. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

31 December 2013	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	24,205	-	-	-	-	-	24,205
Loans to customers	501,087	16,595	35,139	201,519	-	(3,282)	751,058
Other assets	638,813	-	6,866	206,603	83,131	180,892	1,116,305
Total assets	1,164,105	16,595	42,005	408,122	83,131	177,610	1,891,568
Customer accounts	(1,020,020)	(55,824)	(169,980)	(69,565)	-	-	(1,315,389)
Other liabilities	(34,890)	(54,193)	(54,733)	-	-	(27,350)	(171,166)
Shareholders' funds	-	-	-	-	-	(405,013)	(405,013)
Total liabilities	(1,054,910)	(110,017)	(224,713)	(69,565)	-	(432,363)	(1,891,568)
Interest rate sensitivity gap	109,195	(93,422)	(182,708)	338,557	83,131	(254,753)	-
Cumulative gap	109,195	15,773	(166,935)	171,622	254,753	-	-

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.

23. Financial instruments (continued)

The table below summarises the repricing mismatches on as at 31 December 2012:

31 December 2012	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	27,441	-	-	-	-	-	27,441
Loans to customers	114,582	3,899	9,249	40,025	-	-	167,755
Other assets	222,095	-	-	110,229	140,771	102,860	575,955
Total assets	364,118	3,899	9,249	150,254	140,771	102,860	771,151
Customer accounts	(410,033)	(32,083)	(86,418)	(47,750)	-	-	(576,284)
Other liabilities	-	-	-	-	-	(16,665)	(16,665)
Shareholders' funds	-	-	-	-	-	(178,202)	(178,202)
Total liabilities	(410,033)	(32,083)	(86,418)	(47,750)	-	(194,867)	(771,151)
Interest rate sensitivity gap	(45,915)	(28,184)	(77,169)	102,504	140,771	(92,007)	-
Cumulative gap	(45,915)	(74,099)	(151,268)	(48,764)	92,007	-	-

23. Financial instruments (continued)

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 (see note 11). 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	Fair value - Valuation techniques			Total Fair Value £'000
		Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	
31 December 2013					
Assets					
Cash and balances with the Bank of England	238,979	-	-	238,979	238,979
Loans and advances to banks	24,205	-	-	24,205	24,205
Loan and advances to customers	751,058	-	-	750,001	750,001
Investment securities (Note 11)	696,434	214,168	482,266	-	696,434
Liabilities					
Deposits from customers	1,315,389	-	-	1,298,050	1,298,050
Repurchase agreements	143,816	-	-	143,620	143,620

23. Financial instruments (continued)

	Carrying Value £'000	Fair value - Valuation techniques			Total Fair Value £'000
		Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	
31 December 2012					
Assets					
Cash and balances with the Bank of England	46,667	-	-	46,667	46,667
Loans and advances to banks	27,441	-	-	27,441	27,441
Loan and advances to customers	167,755	-	-	171,536	171,536
Investment securities	431,220	188,663	242,557	-	431,220
Liabilities					
Deposits from customers	576,284	-	-	576,533	576,533

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

(a) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(b) Investment securities

Investment securities (available for sale) disclosed in the table above comprise only those equity securities held at cost less impairment. The fair value for these assets is based on estimations using market prices and earning multiples of quoted securities with similar characteristics. All other available for sale assets are already measured and carried at fair value.

(c) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

24. Related party transactions

Key management personnel

The bank'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 bank. The Directors and members of the Executive Committee are considered to be the key management personnel for disclosure purposes.

Key management compensation

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

	2013 £'000	2012 £'000
Salaries and other short-term benefits	2,973	3,019
Share based payment cost	286	204
Contributions to pension arrangements	167	202
	<u>3,426</u>	<u>3,425</u>

Banking transactions with key management

The bank 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 2013 were as follows:

	2013 £'000	2012 £'000
Loans payable to the bank		
Loans outstanding at 1 January	739	467
Loans issued during the year	482	831
Loan repayments during the year	(323)	(559)
Loans outstanding at 31 December	<u>898</u>	<u>739</u>
Interest expense on loans payable to the bank	29	14

There were four (31 December 2012: three) loans outstanding at 31 December 2013 totalling £898,000 (31 December 2012: £739,000). One of the loans was a season ticket loan and three of the loans are residential mortgages provided on normal commercial terms. The maximum loan balance outstanding during the year were £1,370,000 (31 December 2012: £1,264,000).

In addition to the loans detailed above the bank has issued credit cards and granted overdraft facilities on current accounts to directors and key management personnel. These transactional accounts are excluded from the balances.

24. Related party transactions (continued)

Deposit transactions during the year and the balances outstanding at 31 December 2013 were as follows:

	2013 £'000	2012 £'000
Deposits outstanding at 1 January	6,741	2,314
Deposits received during the year	3,430	18,433
Deposits repayments during the year	<u>(4,866)</u>	<u>(14,006)</u>
Deposits outstanding at 31 December	<u>5,305</u>	<u>6,741</u>

Other transactions with related parties

The following transactions were carried out with related parties:

	2013 £'000	2012 £'000
Purchases of services		
– entity connected to key management personnel	<u>2,431</u>	<u>2,028</u>

Architecture, design and branding services are provided to the bank by InterArch, Inc., ("InterArch") a firm which is owned by Shirley Hill, the wife of Vernon W. Hill II the Non Executive Chairman.

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 Company's Audit Committee using periodic benchmarking reviews conducted by authoritative independent third parties. The Audit Committee have concluded the arrangements are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an independent third party.

Architectural Design Services

InterArch provide various architectural design services to the bank, including pre-design, architectural, interior design, facilities co-ordination, construction management, signage, security design and layout. 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 1 October 2014 unless terminated prior to that in accordance with its terms.

Branding, Marketing and Advertising

InterArch also provide branding, marketing and advertising services to the bank. The current agreement will terminate on 30 June 2014 unless terminated prior to that in accordance with its terms.

IPR Agreement

On 21 June 2010, the bank entered into an agreement with InterArch in which InterArch agreed to transfer and assign to the bank all UK intellectual property rights which arise from InterArch's provision of services to the bank.

24. Related party transactions (continued)

Transactions with Group Companies

	2013 £'000	2012 £'000
- Interest on intercompany loan with SMEIF	320	-
- Amounts outstanding as at 31 December owed by SMEIF	<u>37,569</u>	<u>-</u>

25. Capital management

The bank is subject to the capital requirements set by its regulator the Financial Conduct Authority and the Prudential Regulation Authority. Capital comprises share capital, share premium and reserves, subject to various adjustments required by the regulators capital rules.

During the year the bank has fully complied with the capital requirements set by the PRA. Further details about the bank's capital position can be found in the key performance indicator section of the directors' report.

26. Business combinations

On 31 July 2013, the Group acquired 100% of the share capital of SME Invoice Finance Limited ("SMEIF") for £15m. The acquisition provides the Group the ability to compete in the SME market by offering comprehensive invoice finance, factoring and asset finance capability.

Goodwill arising on acquisition was £4.1m. This represents the value of the consideration in excess of the recognised tangible assets, liabilities and intangible assets attributable to acquired customer base and economies of scale expected from combining the operations of the group and SMEIF.

Under IFRS3, businesses are required to place a fair value on any additional intangible asset as identified at the point of acquisition. Fair value of future discounted cash-flows have been derived from existing customer contracts. The fair value of customer contracts is £600,000.

26. Business combinations (continued)

The following table summarises the consideration paid for SMEIF, the fair value of assets acquired and liabilities assumed.

	£'000
Consideration at date of acquisition 31 July 2013	
Cash payment for 100% holding	15,000
Total consideration for 100% holding	15,000
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value	
Trade debtors subject to financing	45,757
Investment in finance agreements	2,709
Customer contracts	600
Tangible fixed assets	73
Other current assets	961
Bank loans and overdrafts	(38,326)
Other current liabilities	(914)
Total identifiable net assets	10,860
Goodwill arising on acquisition	4,140

Acquisition-related costs of £0.5m have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2013.

The contingent consideration arrangement required the bank to pay a price of £15m for the entire share capital of SMEIF subject to adjustment under a locked box mechanism. This will be based on the management accounts balance sheet as at 31 July 2013. £2m of the purchase price has been paid into an escrow account as follows:-

- £0.5m, to cover any shortfall in the net asset value below £10.5m as at the Locked Box Date. Subsequent to the 2013 year end this has been released from the escrow account.
- £1.5m, to cover any credit losses for 24 months following Completion above 0.5% for business written prior to completion of the Transaction.

26. Business combinations (continued)

Subsidiaries

The group had the following subsidiaries at 31 December 2013:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the group (%)
SME Invoice Finance Limited	UK	Invoice finance 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.

27. Events after the reporting period

On 21 January 2014, Metro Bank issued a further 7,692,308 new A Ordinary shares at £13 per share, further to an Offer for Subscription on 17 December 2013, for net consideration of £98,580,000.