Company Number: 3591079

SME INVOICE FINANCE LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2018

COMPANY INFORMATION

Current Directors

Craig Donaldson
David Arden (Appointed 29 March 2018)
Mark Stokes (Appointed 29 March 2018)

Former Directors

Michael Brierley (Resigned 29 March 2018)
Richard Saulet (Resigned 29 March 2018)

Registered Office

Metro Bank PLC
One Southampton Row
London
WC1B 5HA

Independent Auditors

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

Registered Number

3591079

STRATEGIC REPORT

Principal activities

SME Invoice Finance Limited ('the Company') provides working capital facilities through the provision of Invoice Discounting and Debt Factoring products to commercial customers. The Company is funded principally from its parent company Metro Bank PLC through borrowing. There have been no changes to the principal activities of the Company throughout the year.

The Company is a limited company domiciled in the United Kingdom and incorporated in England and Wales.

Review of the Company's business

The directors are satisfied with the Company's performance during the year and is in line with expectations. The Company continues to develop organically through the provision of working capital facilities to commercial customers. Going forward the directors anticipate the Company will grow in line with the wider strategy for Metro Bank PLC and its group companies.

Performance

The profit after tax has increased 3% for the year ended 31 December 2018 to £1,370,000 (2017: £1,332,000), driven by a release of an expected credit loss expense. The Company has been impacted by decreasing yields with interest income growing 14% compared to a 66% growth in funding costs.

At the year end the Company had total assets of £99.8 million (2017: £56.8 million), driving largely by increased lending volumes.

Principal risks and uncertainties

The Company seeks to manage all the risks that arise from its activities. There is a formal structure for monitoring and managing risk throughout the Metro Bank group comprising a risk appetite agreed by the board, detailed risk management policies, independent governance, and risk oversight. Further details of the risk management framework in place across Metro Bank PLC can be observed in the financial statements of Metro Bank PLC, the Company's ultimate parent undertaking.

As a result of its normal business activities the Company is exposed to a variety of risks, the most relevant and significant are detailed below, with further information available on pages 28 to 43 of Metro Bank PLC's Annual Report and Accounts for the year ended 31 December 2018.

Credit Risk

Credit risk is the risk of financial loss due to a borrower's failure to meet the terms of any contract or otherwise fail to perform as agreed.

Appetite and mitigation	Measurement and monitoring
The credit risk appetite and policy is owned and approved by the Board of Metro Bank PLC (the Company's ultimate parent company) annually. The Company broadly retains a low appetite for credit risk and is therefore usually happy to trade off high returns at the expense of higher risk. Portfolio-level policies and credit risk appetite are recommended by the Executive to the Board via the Credit Risk, Policy and Appetite Committee ('CRPAC') and the Risk Oversight Committee ('ROC'). The credit risk appetite is specified as a set of key performance indicators ('KPIs'), concentration measures, capital and impairment components. Policy and appetite are based on sound credit risk principles.	Credit risk is overseen on behalf of the Board by the Chief Risk Officer ('CRO'), Credit Risk, Policy and Appetite Committee ('CRPAC') and the Risk Oversight Committee ('ROC') of the group. The Company measure credit quality for impairment purposes using a suite of IFRS 9 models. The IFRS 9 models incorporate the impact of a range of possible future economic scenarios which are subject to internal model governance including being validated by an independent team, regularly monitored and annually reviewed. Key Performance Indicators ('KPIs') are defined, reported against and escalated through to the Risk Oversight Committee. KPIs on portfolio concentrations are included in the monitoring reviewed by the Executive and Board Committee as part of the Company's risk appetite.

Liquidity and Funding Risk

Liquidity risk is the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time.

Appetite and mitigation	Measurement and monitoring
The Company ensures it maintains adequate liquidity to ensure that liabilities can be met as they fall due, as well as support the growth of the business. To mitigate this risk the Company obtains its funding exclusively from its parent Company, Metro Bank PLC.	The Company funds its activities through an intercompany facility with its ultimate parent company, Metro Bank PLC. The revolving intercompany facility is regularly reviewed. The Company has assessed the level of liquidity required of itself and of Metro Bank PLC and is confident that it has sufficient funds available.

Market Risk

Market risk is the risk that earnings or the economic value of equity will underperform due to changes in interest rates, foreign exchange rates, or other financial market asset prices.

Appetite and mitigation

Maturity transformation is one of the primary roles of an invoice finance business and the Company aims to ensure that its earnings are sufficient to satisfy its risk appetite.

All of the Company's exposures are in Pound Sterling ("£") and as such there is no exposure to foreign exchange risk. Both the contractual and expected life of the Companies assets is relatively short and as such can adapt to changes in interest rates and wider market pricing.

Measurement and monitoring

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of the Company's market risk management strategy is to manage and control market risk exposures within acceptable parameters to ensure the Company's solvency while optimising the return on risk. Day-to-day management of market risk on behalf of the board is the responsibility of the Metro Bank PLC Treasury team with oversight from Treasury Risk.

DIRECTORS' REPORT

Directors

The following persons served as directors of SME Invoice Finance Limited during the financial year and up to the date of signing the financial statements:

Craig Donaldson
Michael Brierley (Resigned 29 March 2018)
Richard Saulet (Resigned 29 March 2018)
David Arden (Appointed 29 March 2018)
Mark Stokes (Appointed 29 March 2018)

Dividends

No dividends were declared or paid in the year (2017: £nil) and the directors do not recommend a dividend to be paid in respect of the 2018 financial year.

Political donations

No political donations were made during the year (2017: £nil).

Capital management

The Company is not subject to externally imposed capital requirements and it is dependent on Metro Bank PLC to provide necessary capital resources which are therefore managed on a group basis.

The Company defines capital as total equity. It is Metro Bank PLC's objective to maintain a strong capital base and to support the development of the group while meeting regulatory capital requirements. There were no changes to the Company's approach to capital management during the year.

Going concern

The directors, having made such enquiries as they consider appropriate, have prepared the financial statements on a going concern basis.

Significant events since the end of the financial year

No important events affecting the Company have occurred since the end of the financial year.

Financial statements

As set out more fully in the Accounting Policies on page 12, this Annual Report has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

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.

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 (IFRSs) 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 or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Directors' confirmations
In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The directors report was approved by the board of directors on 27 September 2019 and signed on its behalf by

David Arden
Director
27 September 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SME INVOICE FINANCE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, SME Invoice Finance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations; or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Darren Meek

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 September 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest income	2	**6,004**	5,287
Interest expense	10	**(1,104)**	(664)
Net interest income		**4,900**	4,623
Fee and commission income		**778**	680
Total income		**5,678**	5,303
Operating expenses	3	**(5,050)**	(3,550)
Expected credit loss release		**1,065**	n/a
Credit impairment charges		**n/a**	(112)
Profit before tax		**1,693**	1,641
Taxation	5	**(323)**	(309)
Profit for the year being total comprehensive income		**1,370**	1,332

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Assets			
Cash at bank		**21,576**	1,184
Loans and advances to customers	9	**75,928**	52,770
Amounts owed by group undertakings	10	**186**	677
Property, plant and equipment		**9**	19
Investment in subsidiary		**1,882**	1,883
Prepayments and accrued income		**94**	59
Deferred tax assets	5	**171**	-
Other assets		**2**	159
Total assets		**99,848**	56,751
Liabilities			
Amounts due to customers		**5,690**	4,575
Amounts owed to group undertakings	10	**78,732**	37,627
Taxation payable		**673**	511
Accruals and deferred income		**529**	360
Other liabilities		**97**	20
Total liabilities		**85,721**	43,093
Equity			
Called up share capital	6	**2,185**	2,185
Share premium account		**495**	495
Capital redemption reserve		**621**	621
Retained earnings	7	**10,826**	10,357
Total equity		**14,127**	13,658
Total equity and liabilities		**99,848**	56,751

The accounting policies, notes and information on pages 12 to 23 form part of the financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 27 September 2019 and were signed on its behalf by:

David Arden
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance as at 31 December 2017	**2,185**	**495**	**621**	**10,357**	**13,658**
IFRS 9 transition adjustment (net of tax)	**-**	**-**	**-**	**(901)**	**(901)**
Balance as at 1 January 2018	**2,185**	**495**	**621**	**9,456**	**12,757**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**1,370**	**1,370**
Balance as at 31 December 2018	**2,185**	**495**	**621**	**10,826**	**14,127**
Balance as at 1 January 2017	2,185	495	621	9,025	12,326
Profit and total comprehensive income for the year	–	–	–	1,332	1,332
Balance as at 31 December 2017	2,185	495	621	10,357	13,658
Note	6			7	

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax		**1,693**	1,641
Adjustments for:			
Loss on disposal of property, plant and equipment		**6**	-
Depreciation of property, plant and equipment	3	**12**	16
Changes in operating assets		**(24,108)**	(4,587)
Changes in operating liabilities		**1,202**	478
Net cash outflow from operating activities		**(21,195)**	(2,452)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(9)**	(10)
Movements of amounts owed by group undertakings	11	**41,105**	56
Net cash inflow from investing activities		**41,096**	46
Cash flows from financing activities			
Movements of amounts owed to group undertakings	11	**491**	2,186
Net cash inflows from financing activities		**491**	2,186
Net (decrease)/increase in cash and cash equivalents		**20,393**	(220)
Cash and cash equivalents at start of year		**1,184**	1,404
Cash and cash equivalents at end of year		**21,576**	1,184

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and significant accounting policies

1.1 General information

SME Invoice Finance Limited provides Debt Factoring and Invoice Discounting products in the UK and is a limited liability company (limited by shares) incorporated and domiciled in United Kingdom (incorporated in England and Wales). The address of its registered office is One Southampton Row, London, WC1B 5HA.

1.2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared on a going concern basis, as the directors are satisfied that the Company has support from its parent company and both have the resources to continue in business for the foreseeable future.

The financial statements have been prepared under the Historical Cost Convention.

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

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in GBP, which is the entity's functional and presentation currency.

1.3 Standards, amendments and interpretations to published standards not yet effective

On 1 January 2018 the Company adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement'. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated; accordingly, all comparative period information is presented in accordance with our previous accounting policies

Reconciliation of balance sheet balances from IAS 39 to IFRS 9

The following tables reconcile the carrying amount of financial assets and liabilities, from their previous measurement category in accordance with IAS 39 as at 31 December 2017 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	IAS 39		IFRS 9	
Class of financial asset or liability	Measurement category	Carrying amount £'000	Measurement category	Carrying amount £'000
Financial assets				
Cash at bank	Loans and receivables	**1,184**	Amortised cost	**1,184**
Loans and advances to customers	Loans and receivables	**52,770**	Amortised cost	**51,680**
Amounts owed by group undertakings	Loans and receivables	**677**	Amortised cost	**677**
Financial liabilities				
Amounts owed to group undertakings	Financial liabilities at amortised cost	**37,627**	Amortised cost	**37,627**

Financial assets measured at amortised cost under IFRS 9

£'000	**Cash at bank** (IAS 39: Loans and receivables)	**Loans and advances to customers** (IAS 39: Loans and receivables)	**Amounts owed by group undertakings** (IAS 39: Loans and receivables)	**Total**
Carrying value under IAS 39	**1,184**	**52,770**	**677**	**54,631**
Remeasurement of impairment allowance	**-**	**(1,090)**	**-**	**(1,090)**
Carrying value under IFRS 9 – amortised cost	**1,184**	**51,680**	**677**	**53,541**

The total amount of impairment of £1.1 million was adjusted through opening equity on 1 January 2018. A corresponding increase in the deferred tax assets of approximately £0.2 million was also adjusted through opening equity on 1 January 2018.

The increase in loss allowance estimated under IFRS 9 when compared to that measured under IAS 39 is primarily due to earlier recognition of credit losses under the new expected loss model.

1.4 Standards, amendments and interpretations to published standards not yet effective

IFRS 16 "Leases" is effective from 1 January 2019. IFRS 16 provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. IFRS 16 replaces IAS 17 "Leases". IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use ("RoU") assets and lease liabilities for all applicable leases, with operating leases being brought onto the face of the balance sheet.

The Company adopted IFRS 16 on the modified retrospective basis and as such there will be no restatement of comparators within the 2019 Annual Report & Accounts, which will continue to be presented under IAS 17. On adoption of the standard on 1 January 2019, the Company recognised lease liabilities for operating leases of £80,000. Upon transition the RoU asset was set equal to the related lease liability. The weighted average incremental borrowing rate used to measure lease liabilities at transition was 5.5% which was the rate of the Company's parent, Metro Bank PLC, from which it receives its funding.

The Company has elected to apply all the relevant practical expedient, that being to exempt both low value leases (less than £5,000) and short leases (less than 12 month in length).

1.5 Critical accounting estimates

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

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

Measurement of the expected credit loss allowance

The recognition and measurement of expected credit losses ('ECL') is complex and involves the use of significant estimation and judgements. The Company considers that its key assumption relates to the determination of whether a "significant increase in credit risk" has occurred. The Company considers that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of IFRS 9.

Significant increase in credit risk (critical accounting estimate)

As described in more detail in note 9, IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach. Financial assets that have had no significant increase in credit risk since initial recognition or that have low credit risk at the reporting date are considered to be performing loans and are classified as "Stage 1". Losses are calculated based on the Company's expectation of losses expected on defaults which may occur within the next 12 months. Assets which are considered to have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment, are classified as "Stage 2". Losses are calculated based on defaults which may occur at any point in the asset's lifetime.

Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, is performed at each reporting period by considering the change in the probability of default ('PD') occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The Company assess whether PD has increased using qualitative and quantitative measures, as described in note 9.

Multiple forward-looking economic scenarios (critical accounting estimate)

As described in note 9, the ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. At 31 December 2018, three main scenarios were applied ("Baseline", "Upside" and "Downside"), plus a specific "Hard Brexit" scenario incorporating the high degree of uncertainty in estimating the current uncertainty in the UK economy ahead of the UK's departure from the European Union in 2019.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied:

• UK interest rates

• UK unemployment rates

• UK gross domestic product ('GDP') changes, year on year

The weightings applied to each scenario at 31 December 2018 are:

• Baseline - 37%
• Upside and downside - 28% each
• Hard Brexit - 7%

The weighted ECL is higher than the baseline scenario, reflecting the impact of the downside and Hard Brexit scenarios, offset by the impact of the upside scenario. Further details on how the assumptions and scenario weightings have been determined can be found in note 9.

2. Interest income

Accounting policy	The Company recognises interest income and expense for all interest-bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate discount income (which is the amount charged on a daily basis to clients) is calculated on the amount of cash advanced under their facility.

	2018 £'000	2017 £'000
Invoice discounting and factoring advances income	**6,002**	5,279
Interest charged on loan to subsidiary	**2**	8
Total interest income	**6,004**	5,287

3. Operating expenses

	2018 £'000	2017 £'000
People costs	**3,041**	2,724
Inter-group recharges	**1,219**	-
Travel costs	**262**	249
IT costs	**167**	154
Operating lease rentals	**29**	57
Fees payable to the Company's auditors	**16**	19
Depreciation	**12**	16
Other operating expenses	**304**	331
Total operating expenses	**5,050**	3,550

During the year the Company's ultimate parent, Metro Bank PLC, started to recharge costs to its group companies. These costs include occupancy costs (such as rent, rates, service charges and utilities), where space is occupied within Metro Bank buildings.

Fees payable to the Company's auditors PricewaterhouseCoopers LLP ("PwC") are analysed below:

	2018 £'000	2017 £'000
Fees payables to the Company's auditors for audit services	**16**	19
Total fees payables to the Company's auditors	**16**	19

4. People costs

Accounting policy	The Company operates a defined contribution pension scheme. The Company pays contributions to employees' individual personal pension plans on a contractual basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense over the period for which they fall due.

	2018 £'000	2017 £'000
Wages and salaries	**2,563**	2,290
Social security costs	**293**	253
Other pension costs	**185**	181
Total people costs	**3,041**	2,724

The monthly average number of persons employed by the Company ("FTE") during the period was 55 (2017: 59).

Directors' emoluments

The directors earn no remuneration for their services to the Company. The directors are remunerated by the ultimate parent undertaking for their services to the Group. Details of the ultimate parent undertaking can be found in note 12.

5. Taxation

Accounting policy	**Current tax** Current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Where there are 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 balance sheet. **Deferred tax** Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. A deferred tax asset to the extent that it is probable that future taxable profits will be available against which it can be used and is reviewed at each reporting date and where necessary is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax charge for the year

The components of income tax expense for the year are:

	2018 £'000	2017 £'000
Current tax:		
Current tax	302	318
Adjustment in respect of prior years	2	(9)
Total current tax	304	309
Deferred tax:		
Effect of changes in tax rates	(2)	-
Originations and reversal of temporary differences	21	-
Total deferred tax expense	19	-
Total tax expense	323	309

Reconciliation of the total tax expense

The total tax expense shown in the income statement differs from the tax expense that would apply if all accounting profits had been taxed at the UK corporation tax rate.

A reconciliation between the tax expense and the accounting profit multiplied by the UK corporation tax rate for the years ended 31 December 2018 and 2017 is as follows:

	2018 £'000	2017 £'000
Profit before tax	1,693	1,641
Tax expense at statutory income tax rate of 19% (2017: 19.25%)	322	316
Tax effects of:		
Non-deductible expenses	1	2
Effect of changes in tax rates	(2)	-
Adjustment in respect of prior years	2	(9)
Tax expense reported in the income statement	323	309

Deferred tax

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

	2018 £'000	2017 £'000
Deferred tax assets	171	-

	2018 £'000	2017 £'000
At 1 January	-	-
IFRS 9 transition adjustment[1]	190	-
Income statement	(19)	-
At 31 December	171	-

1. The IFRS 9 transition adjustment was adjusted in the opening balance as at the 1 January 2018. It has been shown separately in the table above to show how the opening balance as at the 1 January 2018 reconciles to the closing balance as at 31 December 2017

6. Called up share capital

Cumulative redeemable preference shares

All preference shares in issue form a single class and are entitled to a fixed cumulative preferential dividend of 10% per annum from the date of issue. The preference shareholders have released the Company from its obligation in respect of the arrears of preference dividends until such time as the shares are redeemed or the Company's directors decide there are excess funds to settle previous years' arrears, as appropriate. Accordingly, no amounts are accrued in respect of this preference dividend each year.

The preference shares are only redeemable at the Company's option. As such the preference shares are considered to be equity share capital and have been disclosed as share capital in these financial statements.

On return of capital on liquidation or otherwise (but not on redemption) the order of distribution is:

- First to the preference shares.
- Second to any accruals of dividend to the preference shares.
- Third to the ordinary shares.
- Last to the deferred shares.

The holders of the preference shares shall have no right to receive notice of and attend and vote at any general meeting of the Company.

Ordinary shares and deferred shares

Subject to the payment of the fixed dividend due on the preference shares (including any arrear or any interest) and to the payment to the holders of the ordinary shares of such dividends not exceeding £100 for each 1p nominal amount of ordinary share capital in respect of any financial year or other accounting period of the Company as may be resolved to be distributed, any profits available for distribution and resolved to be distributed in respect of each financial year or accounting period of the Company shall be paid to the holders of the deferred shares and the holders of the ordinary shares pari-passu and rateably in accordance with the amounts paid up on their respective holdings of ordinary shares and deferred shares.

The holders of ordinary shares shall have the right to receive notice of and attend and vote at any general meeting of the Company. The holders of the deferred shares shall have no rights to receive notice of or attend, speak or vote at general meetings of the Company.

	31 December 2018 £'000	31 December 2017 £'000
Called up share capital, allotted and fully paid (537,931 shares of 1p each)	**5**	5
Deferred shares (5,567 shares of 1p each)	**–**	–
Deferred B shares (56,502 shares of 1p each)	**1**	1
Cumulative redeemable preference shares (2,178,608 shares of £1 each)	**2,179**	2,179
Total called up share capital	**2,185**	2,185

7. Reconciliation of movements in retained earnings

	2018 £'000	2017 £'000
At 1 January	**10,357**	**9,025**
IFRS 9 transition adjustment (net of tax)[2]	**(901)**	-
Profit for the year	**1,370**	**1,332**
At 31 December	**10,826**	**10,357**

2. The IFRS 9 transition adjustment was adjusted in the opening balance as at the 1 January 2018. It has been shown separately in the table above to show how the opening balance as at the 1 January 2018 reconciles to the closing balance as at 31 December 2017

8. Leases

Accounting policy The leases entered into by the Company 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.

Commitments under leases

The Company leases offices under non-cancellable operating lease arrangements. At the Balance Sheet date future minimum payments under operating leases were:

	2018 £'000	2017 £'000
Due		
Within one year	36	36
Due in one to five years	67	103
Due in more than five years	-	-
At 31 December	**103**	139

9. Loans and advances

Accounting policy

All of the Company's financial instruments (including loans and advances to customers) are held at amortised cost. The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with these assets and recognises a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly. Risk of default and expected credit losses must incorporate forward looking and macroeconomic information.

Loans and advances

Sophisticated impairment models have been developed for our loan portfolio. Expected credit losses are calculated by multiplying three main components, being the probability of default, loss given default and the exposure at default, discounted at the original effective interest rate.

Key model inputs and judgements include:

- Consideration of when a significant increase in credit risk occurs
- Probability of default ('PD'), loss given default, and exposure at default
- Macro economic scenarios to be applied

Significant increase in credit risk

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach:

Stage	Description	ECL recognised
Stage 1	Financial assets that have **had no significant increase in credit risk** since initial recognition or that have low credit risk at the reporting date.	**12-month expected credit losses** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macro-economic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macro-economic scenarios.
Stage 3	Financial assets that are **credit impaired** at the reporting date. A financial asset is credit impaired when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due (non-performing loan) or where the borrower is considered unlikely to pay.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macro-economic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired ("POCI") asset	Financial assets that have been purchased and had **objective evidence of being "non-performing" or "credit impaired"** at the point of purchase.	**Lifetime expected credit losses** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognized as a loss allowance.

The Company does not currently have any POCI assets.

A significant increase in credit risk may be identified in a number of ways:

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The selection of the threshold is such that the PD threshold of the observed median lifetime PD at origination is 3 times this median.
- Qualitative criteria –Instruments that are 30 days past due or more are allocated to stage 2, regardless of the results of the quantitative analysis. Instruments that are 30 days past due or more or instruments classified on the watchlist as higher risk are allocated to Stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realization of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with; or.
- A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as "non-performing" or "credit impaired". Instead, the combined effect of several events may cause financial assets to become credit impaired.

A probation period is implemented before transferring a financial instrument to a lower stage (ie, from Stage 3 to Stage 2, or from Stage 2 to Stage 1). Specifically, in order to move an account from Stage 3 to Stage 2, we apply a backstop such that the instrument should meet the Stage 2 criteria for three consecutive months. The same logic is applied when transferring an account from Stage 2 to Stage 1.

Probability of default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A probability of default is calculated for all loans based on historic data and incorporates:

- Credit quality scores
- Lifecycle trends depending on a loan's vintage
- Factors indicating the quality of the vintage
- Characteristics of the current and future economic environment

Loss given default

The loss given default ('LGD') represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral (where applicable)
- Expected haircut applied to the collateral value to reflect a forced sale discount
- Price index forecasts applied to project collateral values into the future where applicable
- Stress factors based on macro-economic scenarios

Exposure at default

This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest should be accrued
- Repayments may be received on mortgages
- For a revolving product, where applicable, further drawings may be taken between the current point in time and the point of default
- Estimations of these factors will be incorporated into our estimate of exposure at default.
- PD, LGD and exposure at default are calculated and applied at an individual account level for secured lending. For unsecured lending, PD and exposure at default are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

Macroeconomic scenarios

The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e. where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

In the normal course of business, we use three scenarios. These represent a 'most likely outcome', (the "Baseline" scenario) and two, less likely, 'Outer' scenarios on either side of the Baseline scenario, referred to as an "Upside" and a "Downside" scenario respectively. The Baseline scenario captures the most likely economic future; the downside scenario presents particular adverse economic conditions; and the upside scenario presents more favourable economic conditions.

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied:
• UK interest rates
• UK unemployment rates
• UK gross domestic product ('GDP') changes, year on year

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. Each scenario was determined by flexing the baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A large number of possible future paths is simulated. The Downside scenario has been set to be worse than 90% of possible future outcomes; the Upside scenario has been set to be better than 90% of possible future outcomes. These assumptions are considered sufficient to capture any material nonlinearities

A simulation process was designed to determine the weighting to apply to each scenario based on the severity of each scenario and the range of possible scenarios for which that scenario was representative.

We recognise that applying the above three scenarios will not always be sufficient to determine an appropriate ECL in all economic environments: A forth scenario has been included in the 31 December 2018 ECL, a "Hard Brexit" scenario, adding to the result derived using the three scenarios detailed above. This additional scenario reflects management's judgement that the scenarios above do not fully reflect the high degree of uncertainty in estimating the current uncertainty in the UK economy ahead of the UK's departure from the European Union in 2019 ('Brexit'). The Hard Brexit scenario is more severe than the current downside scenario and is considered to be in keeping with some of the more severe outcomes published by UK government departments and industry bodies. The Hard Brexit scenario is used as an add-on to the three "business as usual" scenarios.

The weightings applied to each scenario at 31 December 2018 are:
• Baseline – 37%
• Upside and downside – 28% each
• Hard Brexit – 7%

This weighting scheme is deemed as being appropriate for the computation of unbiased ECL

Economic variable assumptions
The period-end assumptions used for the ECL estimate as at 31 December 2018 are as follows:

	2019	2020	2021	2022
Interest rates (%)	Base: 2.2% Upside: 2.1% Downside: 0.9% Brexit:0.5%	Base: 2.6% Upside: 3.1% Downside: 1.2% Brexit: 0.8%	Base: 2.8% Upside: 3.1% Downside: 1.4% Brexit: 0.9%	Base: 3.2% Upside: 3.5% Downside: 1.6% Brexit: 1.3%
UK unemployment (%)	Base: 4.6% Upside: 3.3% Downside: 6.2% Brexit: 6.7%	Base: 4.8% Upside: 3.4% Downside: 7.2% Brexit: 8.4%	Base: 5.0% Upside: 3.6% Downside: 7.3% Brexit: 8.5%	Base: 5.0% Upside: 3.0% Downside: 6.9% Brexit: 8.1%
UK GDP – % change year-on-year	Base: 1.6% Upside: 4.0% Downside: (1.9)% Brexit: (3.6)%	Base: 1.4% Upside: 2.1% Downside: 0.8% Brexit: (0.2)%	Base: 1.9% Upside: 1.9% Downside: 2.6% Brexit: 2.6%	Base: 1.8% Upside: 1.6% Downside: 2.0% Brexit: 2.3%

The assumptions used for the ECL estimate as at 1 January 2018 are as follows:

	2018	2019	2020	2021	2022
Interest rates (%)	Base: 1.7% Upside: 1.8% Downside: 1.5% Brexit: n/a	Base: 2.3% Upside: 2.6% Downside: 1.0% Brexit: n/a	Base: 2.7% Upside: 2.9% Downside: 1.0% Brexit: n/a	Base: 2.6% Upside: 3.0% Downside: 1.3% Brexit: n/a	Base: 3.0% Upsic 3.3% Downside: 1.8% Brexit: n/a
UK unemployment (%)	Base: 4.6% Upside: 4.0% Downside: (5.7)% Brexit: n/a	Base: 4.8% Upside: 3.5% Downside: 7.1% Brexit: n/a	Base: 5.0% Upside: 3.6% Downside: 7.5% Brexit: n/a	Base: 5.1% Upside: 3.9% Downside: 7.3% Brexit: n/a	Base: 5.1% Upsic 4.1% Downside: 6.9% Brexit: n/a
UK GDP – % change year-on-year	Base: 1.6% Upside: 3.4% Downside: (1.1)% Brexit: n/a	Base: 1.6% Upside: 3.2% Downside: (0.8)% Brexit: n/a	Base: 1.8% Upside: 2.1% Downside: 1.9% Brexit: n/a	Base: 1.9% Upside: 1.7% Downside: 2.5% Brexit: n/a	Base: 1.8% Upsic 1.6% Downside: 2.0% Brexit: n/a

Previous accounting policy
2017 comparative data is disclosed under IAS 39; instead of an ECL an allowance for impairment is held. The allowance for impairment represents the cumulative credit impairment losses recognised and are reported as a deduction from the carrying value of the loan. Credit impairment losses recognised during the year are shown as in the income statement as 'Credit impairment charges'.

Loans and advances to customers are classified as held at amortised cost. All customer lending is held to collect cash flows, with no sales expected in the normal course of business. We aim to offer products with simple terms to customers, and as a result, all loans comprise solely payments of principal and interest. Loans are initially recognised when cash is advanced to the borrower 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. Interest on loans is included in the income statement and is reported as 'Interest income'. Expected credit losses ('ECL') are reported as a deduction from the carrying value of the loan. Changes to the ECL during the year are recognised in the income statement as "Expected credit loss expense".

Impairment losses are reported as a deduction from the carrying value of the loan and recognised in the Statement of Comprehensive Income. Provisions are made by management based on judgements which are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Company's financial instruments primarily comprise loans and receivables, cash held at banks and amounts due to/from group undertakings used to finance the Company's lending activities. All of these arise as a result of the Company's normal operations. The Company does not enter into transactions for speculative purposes and there are no instruments held for trading.

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

Responsibility for the control of overall risk within the Company lies with the board of directors. However, as the Company's funding is provided and managed on behalf of the Company by its ultimate parent Metro Bank PLC, the market and the liquidity risk faced by the Company is managed and borne by its ultimate parent. Further details of how the Group manages its risks can be found in Metro Bank PLC's Annual Report and Accounts for the year ended 31 December 2018.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's advances to customers. Impairment provisions are charged to the Statement of Comprehensive Income for losses that have been incurred at each Balance Sheet date.

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

• Defining the Enterprise Risk Management structure and quantifying the Company Risk Appetite.

• Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

• Establishing the authorisation structure for the approval and renewal of credit facilities.

• Limiting concentrations of exposure to counterparties and industries (for loans and advances and similar exposures) and by issuer, credit rating bands and market liquidity

Credit risk exposure

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Up to date	75,655	-	-	75,655
1 to 29 days past due	-	76	5	81
30 to 89 days past due	-	-	906	906
90+ days past due	-	-	-	-
Gross carrying amount	**75,655**	**76**	**911**	**76,642**

Gross carrying amount

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	50,662	627	2,169	53,458
Transfers to/(from) stage 1[1]	370	(370)	-	-
Transfers to/(from) stage 2	(255)	255	-	-
Transfers to/(from) stage 3	(270)	(33)	303	-
Net remeasurement due to transfer[2]	-	-	-	-
New lending[3]	26,529	-	9	26,538
Repayments, additional drawdowns and interest accrued	3,918	(179)	(641)	3,098
Derecognitions[4]	(5,299)	(224)	(929)	(6,452)
Changes to model assumptions[5]	-	-	-	-
Balance as at 31 December 2018	**75,655**	**76**	**911**	**76,642**

Loss amount

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	752	136	890	1,778
Transfers to/(from) stage 1[1]	80	(80)	-	-
Transfers to/(from) stage 2	(3)	3	-	-
Transfers to/(from) stage 3	(3)	(7)	10	-
Net remeasurement due to transfer[2]	(77)	20	89	32
New lending[3]	302	-	9	311
Repayments, additional drawdowns and interest accrued	-	-	-	-
Derecognitions[4]	(66)	(49)	(361)	(476)
Changes to model assumptions[5]	(773)	(10)	(148)	(931)
Balance as at 31 December 2018	212	13	489	714

Net carrying amount

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Balance at 1 January 2018	49,910	491	1,279	51,680
Transfers to/(from) stage 1[1]	290	(290)	-	-
Transfers to/(from) stage 2	(252)	252	-	-
Transfers to/(from) stage 3	(267)	(26)	293	-
Net remeasurement due to transfer[2]	77	(20)	(89)	(32)
New lending[3]	26,227	-	-	26,227
Repayments, additional drawdowns and interest accrued	3,918	(179)	(641)	3,098
Derecognitions[4]	(5,233)	(175)	(568)	(5,976)
Changes to model assumptions[5]	773	10	148	931
Balance as at 31 December 2018	75,443	63	422	75,928

1. Represents stage transfers prior to any ECL remeasurements
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer, including any changes to the model assumptions and forward looking information.
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed.
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off.
5. Represents the change in loss allowances resulting from changes to the model assumptions, forward looking information and changes in the customers risk profile.

Loans and receivables – maximum exposure

	2017 £'000
Neither past due nor impaired	52,753
Past due but not impaired	-
Impaired	705
	53,458
Less Allowance for impairment	(688)
Maximum credit exposure	52,770

Allowance for loans and receivables which are impaired

	2017 £'000
Balance at 1 January	667
Advances written off, net of recoveries	(91)
Charge to Statement of Comprehensive Income	112
At 31 December	688

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The trading activities of the Company are funded through facilities with its ultimate parent company, Metro Bank PLC. The Group's board of directors sets the Group's risk appetite and policy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Asset and Liability Management Committee ("ALCO"). The Treasury function manages the Group's liquidity position on a day-to-day basis under the oversight of the CFO and ALCO. The Group's approach is to ensure that it can meet payments as they fall due – both in normal conditions and in the event of a severe liquidity stress, and that it can survive a severe liquidity stress event and continue as a going concern.

Further details can be found in Metro Bank PLC's Annual Report and Accounts for the year ended 31 December 2018.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of the Company's market risk management strategy is to manage and control market risk exposures within acceptable parameters to ensure the Company's solvency while optimising the return on risk.

Through use of inter-company funding arrangements, the terms of which mirror the terms of underlying agreements with customers, the Company has transferred its exposure to changes in interest rates to Metro Bank PLC. The exposure and impact of substantial interest rate movements to the Company is limited.

Fair values of financial assets and liabilities

Financial instruments include financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments in this context are advances to customers and borrowed funds from group undertakings. The financial instruments are accounted for on an amortised cost basis and no financial instruments use fair value accounting. The fair value for all financial instruments is considered to be approximate to their carrying value. Given the average duration of the Company's loans is usually short term it is therefore felt their recoverable amount is deemed to be an appropriate proxy for their fair value.

10. Related parties

Key management compensation

All the Directors of the Company are employees of the parent company, Metro Bank PLC. All remuneration to key management is paid by Metro Bank PLC.

Transactions with Group companies

	2018 £'000	2017 £'000
Interest received on intercompany loan with SME Asset Finance Limited	**2**	8
Amounts outstanding as at 31 December owed by SME Asset Finance Limited	**186**	677

	2018 £'000	2017 £'000
Interest paid on intercompany loan with Metro Bank PLC	**1,104**	664
Amounts outstanding as at 31 December owed to Metro Bank PLC	**78,732**	37,627

11. Capital management

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Metro Bank PLC's regulatory capital requirements.

The Company's parent reviews the Company's capital structure and advises the Board to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid, return capital, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the statement of changes in equity. The Company receives its funding from its parent and does not raise funding externally.

12. Ultimate parent company and parent undertaking of larger group

The ultimate and immediate parent undertaking and controlling party is Metro Bank PLC, a company incorporated in England and Wales. Metro Bank PLC is the parent undertaking of the largest and smallest group of undertaking to consolidate these financial statements at 31 December 2018. The consolidated financial statements of Metro Bank PLC are available from Companies House, Crown Way, Cardiff, CF14 3UZ. No other group financial statements include the results of the Company.

13. Investment in subsidiary undertakings

The Company had the following subsidiaries at 31 December 2018:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)
SME Asset Finance Limited	**UK**	**Asset finance**	**100**
RDM Factors Limited	**UK**	**Dormant**	**100**

The registered office of both the Company and all of its subsidiaries is One Southampton Row, London, WC1B 5HA.

14. Post balance sheet events

There have been no reportable post balance sheet events.