METRO BANK

Metro Bank PLC

Financial Statements

Year Ended 31 December 2011

(All amounts in Pounds thousands unless otherwise stated)

COMPANY INFORMATION

Board of Directors

Non Executive Chairman
Anthony Thomson

Non Executive Directors
Stuart Bernau
Keith Carby
Lord Flight (Senior Independent Director)
Alastair (Ben) Gunn
Graeme Hardie
Vernon Hill (Vice Chairman)
Luke Johnson
Eugene Lockhart
Jamie 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 and regulated by the Financial Services Authority
Member of British Bankers Association

(All amounts in Pounds thousands unless otherwise stated)

DIRECTORS' REPORT
For the twelve months ended 31 December 2011

Financial statements
The Directors present their annual report and the audited financial statements of Metro Bank PLC ("Metro Bank", "the bank") for the twelve months ended 31 December 2011 Comparatives are for the sixteen months ended 31 December 2010

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 in the London area and offering 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 eleven branches in the London area, following the opening of High Wycombe on 16 March 2012 Accounts increased from 9,000 on January 1 2011 to 48,000 by December 31, 2011

The operating loss after taxation for the year ended 31 December 2011 is £18,996,000 (December 2010 Sixteen months Loss £23,386,000) The loss is a direct result of significant investment across the business in building branches, infrastructure and systems to enable future growth and scale to be achieved

The number of employees at 31 December 2011 was 376 (December 2010 185)

Future Developments

The bank will continue to grow organically, to ensure that the operating model remains fully aligned with the customer proposition, and has a further nine high specification branches in development which will open in the London area during 2012 The bank continues to invest in its technology and infrastructure (see investment in the business below)

Investment in the business
Fixed asset additions in the year of £17,771,000 (December 2010 £15,321,000) and additions to Intangible assets of £2,667,000 (December 2010 £6,351,000) comprised investments in new branches and IT systems and infrastructure This investment is ongoing and the bank is forecast to spend over £31,000,000 during 2012 on further branches and enhancing technology infrastructure

Investment securities
Metro Bank has a portfolio of securities These investments are in UK Government securities highly rated covered bonds, mortgage backed securities and money market funds, and all investments are denominated in Sterling As at 31 December 2011, the value of these investments was £81,311,000 (31 December 2010 £40,296,000)

(All amounts in Pounds thousands unless otherwise stated)

Customer deposits

A major source of funding for Metro Bank is from retail deposits Deposit balances were £151,608,000 at 31 December 2011 (31 December 2010 £17,854,000)

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 2011, 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 settling 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

These activities are overseen by the bank's Chief Risk Officer as well as Risk Oversight Committee and Board More generally, the bank's Chief Risk Officer is responsible for ensuring each risk is adequately monitored, managed, reported and, where possible, mitigated

As a result of its normal business activities the bank is exposed to a variety of risks, the most significant are detailed below

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 and specifying 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 grade 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 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

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 Where this is not possible, interest rate swap arrangements are entered into to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets

(All amounts in Pounds thousands unless otherwise stated)

Both Liquidity Risk and Interest Rate Risk management is 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 develop mitigation plans, where appropriate
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 Comparatives are not shown due to the material change in the business in the year

Customer loan to deposit ratio	28%
Loan loss reserve to total loans	0 44%
Capital as %age of risk weighted assets	74%
Equity as %age Deposits	51%
Leverage (equity /total assets)	32%

Results and dividends
The results for the year are set out in the Statement of comprehensive income on page 9 No dividends are paid or payable in respect of the twelve months ended 31 December 2011 (31 December 2010 £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 2011 of £4,706,000 (31 December 2010 £1,269,000) The trade creditor days figure was 48 at 31 December 2011 (2010 32)

Political and charitable donations
Metro Bank made £69,631 (2010 £10,000) charitable donations and no political donations (2010 £nil) in the twelve months ended 31 December 2011

Employee involvement
Metro Bank provides employees with information on matters of concern to them, consulting them, 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 receive share option grants

Diversity
Metro Bank is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status 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

(All amounts in Pounds thousands unless otherwise stated)

fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the group If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary

Directors

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

Vernon Hill
Anthony Thomson
Stuart Bernau
Mike Brierley
Keith Carby
Craig Donaldson
Howard Flight
Alastair Ben Gunn
Eugene Lockhart
Graeme Hardie
Luke Johnson (appointed 1 October 2011)
James Reuben (appointed 1 October 2011)

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

(All amounts in Pounds thousands unless otherwise stated)

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 20 March 2012 and was signed on its behalf by

Anthony Thomson
Chairman
20 March 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC

We have audited the financial statements of Metro Bank PLC for the year ended 31 December 2011 which comprise the Balance Sheet, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 5 & 6, 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 International Standards on Auditing (UK and 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

Scope of the audit of the financial statements
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 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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

- we have not received all the information and explanations we require for our audit

Hemione Hudson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 March 2012

(All amounts in Pounds thousands unless otherwise stated)

Statement of comprehensive income
For the twelve months ended 31 December 2011

	Notes	Twelve months ended 31 December 2011	Sixteen months ended 31 December 2010
		£'000	**£'000**
Interest income	3	2,044	196
Interest expense		623	15
Net Interest Income		**1,421**	**181**
Fee and commission income		623	5
Fee and commission expense		106	-
Net Fee and commission income		**517**	**5**
Net gains on sale of investment securities	4	2,285	-
Other income		243	
		4,466	**186**
Impairment charges	10	156	31
Operating expenses	5, 6,7,8	33,723	22,014
Depreciation and amortisation	12,13	3,683	1,527
		37,562	**23,572**
Loss before tax		**33,096**	**23,386**
Taxation	9	**14,100**	-
Loss for the year from continuing operations		**18,996**	**23,386**
Other comprehensive income for the year			
Change in value of available for sale financial assets	11	80	-
Total comprehensive loss for the year		**18,916**	**23,386**

The accounting policies, notes and information on pages 13 to 40 form part of the financial statements

(All amounts in Pounds thousands unless otherwise stated)

Balance Sheet
As at 31 December 2011

	Notes	31 December 2011	31 December 2010
		£'000	**£'000**
Assets			
Cash and balances with the Bank of England		**35,340**	**48,436**
Loans and advances to banks	23	**22,248**	**4,499**
Loans and advances to customers	10,23	**42,130**	**116**
Investment securities	11	**81,311**	**40,296**
Intangible assets	12	**8,782**	**6,979**
Tangible fixed assets	13	**32,290**	**17,338**
Prepayments and accrued income		**780**	**418**
Deferred tax asset	9	**14,100**	-
Other assets	15	**3,274**	**1,035**
Total assets		**240,255**	**119,117**
Liabilities			
Deposits from customers	23	**151,608**	**17,854**
Other liabilities	16	**10,695**	**4,473**
Total liabilities		**162,303**	**22,327**
Shareholders' Equity			
Called up share capital	17	-	-
Share premium	17	**120,131**	**120,131**
Retained earnings	19	**(42,337)**	**(23,341)**
Other reserves		**158**	-
Total shareholders' equity		**77,952**	**96,790**
Total equity and liabilities		**240,255**	**119,117**

The accounting policies, notes and information on pages 13 to 40 form part of the financial statements

These financial statements were approved by the Board of Directors on 20 March 2012 and were signed on its behalf by

Anthony Thomson
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

(All amounts in Pounds thousands unless otherwise stated)

Cash flow statement
For the twelve months ended 31 December 2011

	Notes	Twelve months ended 31 December 2011 £'000	Sixteen months ended 31 December 2010 £'000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(33,096)**	**(23,386)**
Adjustments for			
Depreciation and amortisation of intangible and tangible assets	12,13	**3,683**	**1,527**
Share option reserve	5	**78**	**-**
Gain on sale of securities	4	**(2,285)**	**-**
Changes in operating assets		**(44,615)**	**(1,569)**
Changes in operating liabilities		**139,976**	**16,954**
Net cash flows from operating activities		**63,741**	**(6,474)**
Cash flows from investing activities			
Net Purchase of investment securities	11	**(38,650)**	**(40,296)**
Purchase of property, plant and equipment	13	**(17,771)**	**(15,321)**
Purchase of intangible assets	12	**(2,667)**	**(6,351)**
Net cash flows from investing activities		**(59,088)**	**(61,968)**
Cash flows from financing activities			
Share issues		**-**	**120,131**
Repayment of preferred shares		**-**	**(50)**
Net cash flows from financing activities		**-**	**120,081**
Net increase in cash and cash equivalents		**4,653**	**51,639**
Cash and cash equivalents at start of period		**52,935**	**1,296**
Cash and cash equivalents at end of period		**57,588**	**52,935**
Loss before tax includes			
Interest received		2,044	196
Interest paid		623	15
			-

(All amounts in Pounds thousands unless otherwise stated)

Statement of changes in equity

	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 2011	**-**	**120,131**	**(23,341)**	**-**	**-**	**96,790**
Net loss for the year	-	-	(18,996)	-	-	(18,996)
Other comprehensive income, net of tax	-	-	-	80	-	80
Share options at fair value	-	-	-	-	78	78
Balance as at 31 December 2011	**-**	**120,131**	**(42,337)**	**80**	**78**	**77,952**
Balance at 19 September 2009	**50**	**-**	**45**	**-**	**-**	**95**
Net loss for the period	-	-	(23,386)	-	-	(23,386)
Issue of new ordinary shares	-	120,131	-	-	-	120,131
Repayment of preference shares	(50)	-	-	-	-	(50)
Balance as at 31 December 2010	-	120,131	(23,341)	-	-	96,790

Details of share capital and share premium are shown in note 17
Details of retained earnings are shown in note 19
Details of share options are shown in note 18

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

(All amounts in Pounds thousands unless otherwise stated)

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

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), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention

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 financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, which have been measured at fair value

The bank converted to a public limited company ("PLC") on 18 September 2009 and changed its accounting reference date to 31 December It therefore ran a long accounting period from 19 September 2009 to 31 December 2010 (referred to as "sixteen months ended 31 December 2010")

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 23

The 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 bank'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 bank's financial statements therefore present the financial position and results fairly

(All amounts in Pounds thousands unless otherwise stated)

2.1.1 Changes in accounting policy and disclosures

a) New and amended standards adopted by the group

There are no new IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the bank

b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January and not early adopted.

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 the parts 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 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 yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting year beginning on or after 1 January 2013, subject to endorsement by the EU

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 or US GAAP The bank is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting year beginning on or after 1 January 2012, subject to endorsement by the EU

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the bank

2 2 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 thousands, which is the bank'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, nonmonetary 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

2.3 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 loans and advances to other banks The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method Securities lent to counterparties are also retained in the financial statements

2.3 1 Financial assets
The bank allocates financial assets to the following IAS 39 categories loans and receivables, held-to-maturity investments, 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) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity, other than

(a) those that the bank upon initial recognition designates as at fair value through profit or loss,

(b) those that the bank designates as available for sale, and

(c) those that meet the definition of loans and receivables

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method

Interest on held-to-maturity investments is included in the income statement and reported as 'Interest and similar income' In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/ (losses) on investment securities' Held-to-maturity investments are corporate bonds

(c) Available-for-sale financial assets
Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to-maturity investments or financial assets at fair value through profit or loss
Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of 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

(d) Recognition
The bank uses trade 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

2.3 2 Financial liabilities
The bank's holding in financial liabilities is in financial liabilities at amortised cost Financial liabilities are derecognised when extinguished

(a) Other liabilities measured at amortised cost
Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost Financial liabilities measured at amortised cost are deposits from banks or customers

(All amounts in Pounds thousands unless otherwise stated)

(b) 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, industry bank 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

(c) 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 (shares and bonds) 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

2.4 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

2.5 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 6 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

2.7 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

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 12 months, in exceptional cases, longer periods are warranted

(All amounts in Pounds thousands unless otherwise stated)

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

(All amounts in Pounds thousands unless otherwise stated)

that a financial asset or a group of financial assets is impaired

2.8 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

2.9 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

2.10 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 primarily 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 11 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

Leasehold property	lower of the remaining life of the lease or the useful life of the asset
Computers and similar equipment	20%
Fixtures and fittings and other equipment	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

2.12 Intangible assets

IAS38 "Intangible assets" requires the capitalisation of certain expenditure relating to software development costs Software development costs are capitalised if it is probable that the asset created will generate future economic benefits Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense Web development costs are capitalised where the expenditure is incurred on developing an income generating website

Where software costs are capitalised, they are amortised using the straight line method over their estimated useful lives (five to ten years) 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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software These costs are amortised on the basis of the expected useful lives

2 13 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

2.14 Employee benefits

The bank operates a defined contribution pension scheme The bank pays contributions to publicly or privately administered pension insurance 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

2.15 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 16 Comparatives

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

2.17 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 recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of differences can be deducted Recognition therefore involves judgment regarding the future financial performance of the bank The directors are satisfied based on the progress of the bank since launch, and detailed projections which include stress tested scenarios, that sufficient taxable profits will be available

(All amounts in Pounds thousands unless otherwise stated)

(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

	Twelve months ended 31 December 2011	Sixteen months ended 31 December 2010
	£'000	£'000
Investment securities	**1,445**	193
Loans and advances to customers	**599**	3
Total Interest Income	**2,044**	196

4. Net gains on investment securities

	Twelve months ended 31 December 2011	Sixteen months ended 31 December 2010
	£'000	£'000
Net result on disposals	**2,285**	-
	2,285	-

5. Staff costs

	Twelve months ended 31 December 2011	Sixteen months ended 31 December 2010
	£'000	£'000
Salaries & benefits	**10,678**	4,810
Social security costs	**1,193**	1,153
Pension costs	**636**	337
Share based payment cost	**78**	-
	12,585	6,300

The average number of persons employed by the bank during the period was 273 (2010 70)

(All amounts in Pounds thousands unless otherwise stated)

6. Directors' emoluments

	Twelve months ended 31 December 2011	Sixteen months ended 31 December 2010
	£'000	£'000
The remuneration of the Directors of the company was		
Emoluments (including benefits in kind)	**1,202**	1,266
Share based payment cost	**35**	-
Contributions to individual personal pension plans	**77**	97
	1,314	1,363

The bank made contributions to individual personal pension plans in respect of 3 directors (2010 3 directors)

The above amounts for remuneration include the following in respect of the highest paid director	**Twelve months ended 31 December 2011 £'000**	Sixteen months ended 31 December 2010 £'000
Emoluments	**318**	408
Share based payment cost	**8**	-
Contributions to individual personal pension plan	**26**	32
	352	440

7. Pension costs and commitments

The bank operates a defined contribution arrangement for employees Metro Bank made payments amounting to £636,133 (December 2010 £304,000) to employees' individual personal pension plans during the year

8. Loss on ordinary activities before taxation

	Twelve months ended 31 December 2011 £'000	Sixteen months ended 31 December 2010 £'000
This is arrived at after charging / (crediting)		
Operating lease rentals	**4,091**	2,461
Interest payable on Customer accounts	**623**	15
Fees payable to the company's auditors for audit services	**115**	53
Fees payable to the company's auditors for tax services	**19**	52
Fees payable to the company's auditors for other services	**18**	-
Exchange differences	**81**	(150)

(All amounts in Pounds thousands unless otherwise stated)

9. Taxation

	Twelve months ended 31 December 2011 £'000	Sixteen months ended 31 December 2010 £'000
Current tax		
UK corporation tax	-	-
Adjustment in respect of prior years	-	-
Total current tax	-	-
Deferred tax		
Current year	**8,286**	-
Adjustment in respect of prior years	**5,814**	-
Total deferred taxation	**14,100**	-
Total taxation	**14,100**	-

Total tax paid in relation to income during the year was £nil (December 2010 £nil)

A net 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

Analysis of deferred tax balance

	31 December 2011 £'000	31 December 2010 £'000
Losses carried forward (at 25% tax rate 2010 -27% tax rate)	**13,250**	-
Capital allowances	**850**	-
	14,100	-

(All amounts in Pounds thousands unless otherwise stated)

10. Loans and advances to customers

	31 December 2011 £'000	31 December 2010 £'000
Gross Loans and advances to customers	**42,317**	147
Less allowance for impairment	**(187)**	(31)
Net Loans and advances to customers	**42,130**	116
Amounts include		
Repayable on demand or at short notice	**4,846**	95

	2011		2010	
	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	**39,859**	**22,248**	147	4,499
Past due but not impaired	**2,280**	**-**		
Individually impaired	**178**	**-**		
Total	**42,317**	**22,248**	147	4,499
Less allowance for impairment	**187**	-	31	
Individually impaired	**71**	-	-	-
Portfolio impaired	**106**	-	31	
Total	**42,130**	**22,248**	116	4,499

	2011 £'000	2010 £'000
At 1 January	31	-
Reversal of impairment	-	-
Increase in impairment allowance	156	31
At 31 December	187	31

	31 December 2011 £'000	31 December 2011 £'000
Individual (retail customers)		
-Overdrafts	**709**	84
-Credit Cards	**1,527**	39
-Term Loans	**730**	21
-Mortgages	**7,091**	-
Corporate		
-Overdrafts	**2,357**	-
-Credit Cards	**52**	3
-Term Loans	**29,851**	-
Total loans to customers	**42,317**	147

(All amounts in Pounds thousands unless otherwise stated)

11. Investment securities·

	Held to Maturity	Available for Sale	Loans & Receivables	Total
	£'000	£'000	£'000	£'000
As at 1 Jan 2011	**40,296**	**-**	**-**	**40,296**
Additions	**51,179**	**55,662**	**6,000**	**112,841**
Disposals	**(51,232)**	**(20,674)**	**-**	**(71,906)**
Reclassification	**(40,243)**	**40,243**	**-**	**-**
Fair Value changes	**-**	**80**	**-**	**80**
As at 31 Dec 2011	**-**	**75,311**	**6,000**	**81,311**
As at 19 Sep 2009	-	-	-	-
Additions	40,296	-	-	40,296
Disposals	-	-	-	-
Reclassification	-	-	-	-
Fair Value changes	-	-	-	-
As at 31 Dec 2010	40,296	-	-	40,296

The bank sold a significant proportion of its investment securities previously classified as held-to-maturity in August 2011 Based on the tainting rule in IAS 39, the remaining portfolio of HTM was thereafter classified as available for sale This was measured at fair value at the balance sheet date. The fair value of all securities is based on their current bid prices in an active market

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

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

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

	2011	2010
Investment Securities	**£'000**	£'000
-Level 1 Quoted market prices	**33,650**	40,296
-Level 2 Valuation technique, observable inputs	**47,661**	-
	81,311	40,296

(All amounts in Pounds thousands unless otherwise stated)

12. Intangible assets

2011	**Computer software**
Cost or valuation	**£'000**
31 December 2010	7,379
Additions	2,667
Disposals	-
31 December 2011	**10,046**
Amortisation	
31 December 2010	400
Disposals	-
Charge for the year	864
31 December 2011	**1,264**
Net book value	**8,782**
31 December 2011	

2010	**Computer software**
Cost or valuation	**£'000**
19 September 2009	1,028
Additions	6,351
Disposals	-
31 December 2010	**7,379**
Depreciation	
19 September 2009	-
Disposals	-
Charge for the period	400
31 December 2010	**400**
Net book value	**6,979**
31 December 2010	

(All amounts in Pounds thousands unless otherwise stated)

13 Tangible fixed assets

2011

	Leasehold property £'000	Fixtures fittings and equipment £'000	Computers £'000	Total £'000
Cost or valuation				
31 December 2010	12,152	1,102	5,237	18,491
Additions	12,930	2,320	2,521	17,771
Disposals	-	-	-	-
31 December 2011	**25,082**	**3,422**	**7,758**	**36,262**
Depreciation				
31 December 2010	244	116	793	1,153
Disposals	-	-	-	-
Charge for the year	1,085	426	1,308	2,819
31 December 2011	**1,329**	**542**	**2,101**	**3,972**
Net book value 31 December 2011	**23,753**	**2,880**	**5,657**	**32,290**

2010

	Leasehold property £'000	Fixtures fittings and equipment £'000	Computers £'000	Total £'000
Cost or valuation				
19 September 2009	2,543	6	621	3,170
Additions	9,609	1,096	4,616	15,321
Disposals	-	-	-	-
31 December 2010	**12,152**	**1,102**	**5,237**	**18,491**
Depreciation				
19 September 2009	15	-	10	25
Disposals	-	-	-	-
Charge for the period	229	116	783	1,128
31 December 2010	**244**	**116**	**793**	**1,153**
Net book value 31 December 2010	**11,908**	**986**	**4,444**	**17,338**

14. Future capital expenditure

At 31 December 2011 there was £2,625,000 capital expenditure authorised but not contracted for or contracted but not provided for (December 2010 £3,079,000)

(All amounts in Pounds thousands unless otherwise stated)

15. Other assets

	31 December 2011 £'000	31 December 2010 £'000
Refundable collateral	2,515	824
Other	759	211
	3,274	1,035

16. Other liabilities

	31 December 2011 £'000	31 December 2010 £'000
Trade creditors	4,706	1,269
Other taxation and social security costs	43	3
Other creditors	5,946	3,201
	10,695	4,473

17. Called up share capital

A Ordinary shares
As at 31 December 2011, the bank had issued 16,750,000 A Ordinary shares of 0 0001 pence

B Ordinary shares
As at 31 December 2011, the bank had issued 1 million B Ordinary shares of 0.0001 pence to employees, consultants and non executive directors

B Ordinary Shares give employees and others 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 exceeds the Hurdle (as defined in the Articles) If the Hurdle 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 on a pro rata basis with the A Ordinary Shares If the Hurdle is not met at the time of a Realisation Event, the B Ordinary Shares will convert into Deferred B Shares with no value If the Hurdle is met at the time of a Realisation Event, the B Ordinary Shares may be settled in cash or equity depending on the nature of the realisation event

	31 December 2011 £'000	31 December 2010 £'000
Called up ordinary share capital, allotted and fully paid		
At beginning of period	-	-
Issued	-	-
At end of period	-	-

(All amounts in Pounds thousands unless otherwise stated)

	31 December 2011 £'000	31 December 2010 £'000
Called up preference share capital, allotted and fully paid		
At beginning of period	-	50
Issued	-	-
Repaid	-	(50)
At end of period	-	-

	31 December 2011 £'000	31 December 2010 £'000
Share premium account		
At beginning of period	**120,131**	-
Issued	-	120,131
Transfer to reserves	-	-
At end of period	**120,131**	120,131

18 Share Options

The bank offers share options to directors and to 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 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

	2011	2010
At 1 January	-	-
Granted	106	-
Forfeited	-	-
Exercised	-	-
Lapsed	-	-
At 31 December	106	-

Share options were granted on 7 October 2011 at a price of £9 00 per share and expire on 7 October 2021

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

Expiry	Exercise price	2011
7 October 2021	£9 00	106,356

The fair value of options granted during the year is determined by using the Black-Scholes valuation model and was £525,000 (2010 £nil) The significant inputs into the model were share prices of £9 00, the exercise price shown above, volatility of expected share price returns of 67%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 1 4% The volatility, measured at the

(All amounts in Pounds thousands unless otherwise stated)

standard deviation of expected share price returns, is based on statistical analysis of the share prices of other high street banks over the last three years

19. Reconciliation of movements in retained earnings

	£'000
1 January 2011	(23,341)
Loss for the year	(18,996)
31 December 2011	**(42,337)**

20. Financial commitments

At 31 December 2011, Metro Bank had irrevocable undrawn loan facilities granted to retail and commercial customers of £15 7m

In addition the bank has, as part of its retail and commercial operations, commitments of £5 9m (2010 £ 1 5m) 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 branches 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

	2011	2010
	£'000	£'000
Amounts falling due		
Within one year	**4,994**	2,378
Between one and five years	**20,232**	14,470
After five years	**44,382**	35,023
	69,608	51,871

22. Assets and liabilities denominated in foreign currency

As at 31 December 2011, there were assets of £11,779,000(December 2010 £832,000) and liabilities of £11,401,000 (December 2010 £159,000) denominated in US Dollars and Euros There were no other foreign currency assets or liabilities at the balance sheet date

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

(All amounts in Pounds thousands unless otherwise stated)

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 detailed in the Securities Trading and Investment Policy The analysis below details the credit rating of the securities as at 31 December 2010 and 31 December 2011

31 December 2011

Credit Rating	Held-to-maturity	Designated at fair value
AAA	-	79,714
AA- to AA+	-	1,597
A- to A+	-	-
Lower than A-	-	-
Unrated	-	-
Total	-	**81,311**

31 December 2010

Credit Rating	Held-to-maturity	Designated at fair value
AAA	40,296	-
AA- to AA+	-	-
A- to A+	-	-
Lower than A-	-	-
Unrated	-	-
Total	**40,296**	-

None of these assets have been pledged as collateral

(All amounts in Pounds thousands unless otherwise stated)

The table below details the maximum credit risk exposure of the bank

	Maximum Exposure	
	2011	2010
	£'000	£'000
Loans and advances to banks	**22,248**	4,499
Loans and advances to customers		
Loans to individuals (see note 10)	**10,057**	144
Loans to corporate entities (see note 10)	**32,260**	3
Financial assets designated at fair value	**81,311**	40,296
Other Assets	**2,515**	824
	148,391	45,766
Credit risk exposures relating to off-balance sheet items are as follows		
Loan commitments and other credit related obligations	**21,568**	1,500
At 31 December	**169,959**	47,266

As shown above, 38% of the total maximum exposure is derived from loans and advances to banks and customers (2010 10%), 48% represents investments in high quality debt securities (2010 85 %)

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

- 98% of the debt securities are AAA rated,
- Covered bonds, residential mortgage backed securities and mortgage loans are backed by collateral,
- 99% of the loans and advances portfolio are considered to be unimpaired

Liquidity risk

The bank quantifies the bank's 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

(All amounts in Pounds thousands unless otherwise stated)

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

31st December 2011	No Contractual maturity £'000	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Assets								
Cash and balances at central banks	32,279	-	-	-	-	-	3,061	35,340
Loans to banks	22,248	-	-	-	-	-	-	22,248
Loans to customers	4,645	201	3	565	2,610	34,106	-	42,130
Investments	6,000	-	-	-	49,253	26,058	-	81,311
Total financial assets	65,172	201	3	565	51,863	60,164	3,061	181,029
Other assets	-	-	-	-	-	-	59,226	59,226
Total assets	65,172	201	3	565	51,863	60,164	62,287	240,255
Customer accounts	(101,839)	(22,044)	(6,237)	(14,456)	(7,032)	-	-	(151,608)
Other liabilities	-	-	-	-	-	-	(10,695)	(10,695)
Total financial liabilities	(101,839)	(22,044)	(6,237)	(14,456)	(7,032)	-	(10,695)	(162,303)
Capital							(77,952)	(77,952)
Total liabilities	(101,839)	(22,044)	(6,237)	(14,456)	(7,032)	-	(88,647)	(240,255)
Cumulative liquidity gap	(36,667)	(58,510)	(64,744)	(78,635)	(33,804)	26,360	-	-

(All amounts in Pounds thousands unless otherwise stated)

31 December 2010	No Contractual maturity £'000	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Assets								
Cash and balances at central banks	48,436	-	-	-	-	-	-	48,436
Loans to banks	4,499	-	-	-	-	-	-	4,499
Loans to customers	-	95	-	-	21	-	-	116
Investments		-	-	-	22,337	17,959	-	40,296
Total financial assets	52,935	95	-	-	22,358	17,959	-	93,347
Other assets							25,770	25,770
Total assets	52,935	95	-	-	22,358	17,959	25,770	119,117
Customer accounts	(14,446)	-	(2,258)	(1,074)	(76)	-	-	(17,854)
Other liabilities	-	-	-	-	-	-	(4,473)	(4,473)
Total financial liabilities	(14,446)	-	(2,258)	(1,074)	(76)	-	(4,473)	(22,327)
Capital							(96,790)	(96,790)
Total liabilities	(14,446)	-	(2,258)	(1,074)	(76)	-	(101,263)	(119,117)
Cumulative liquidity gap	38,489	38,584	36,326	35,252	57,534	75,493	-	-

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 2011 Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date

(All amounts in Pounds thousands unless otherwise stated)

31 December 2011	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Loans to banks	22,248	-	-	-	-	-	22,248
Loans to customers	33,097	1,174	766	7,093	-	-	42,130
Other assets	53,193	-	-	37,436	22,960	62,288	175,877
Total assets	108,538	1,174	766	44,529	22,960	62,288	240,255
Customer accounts	(79,787)	(6,241)	(14,456)	(51,124)	-	-	(151,608)
Other liabilities	-	-	-		-	(10,695)	(10,695)
Shareholders' funds	-	-	-		-	(77,952)	(77,952)
Total liabilities	(79,787)	(6,241)	(14,456)	(51,124)	-	(88,647)	(240,255)
Interest rate sensitivity gap	28,751	(5,067)	(13,690)	(6,595)	22,960	(26,359)	-
Cumulative gap	28,751	23,684	9,994	3,399	26,359	-	-

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

(All amounts in Pounds thousands unless otherwise stated)

The table below summarises the repricing mismatches on as at 31 December 2010

31 December 2010	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000	Non-interest bearing £'000	Total £'000
Loans to banks	4,499	-	-	-	-	-	4,499
Loans to customers	95	-	-	21	-	-	116
Other assets	48,436	-	-	22,337	17,959	25,770	114,502
Total assets	53,030	-	-	22,358	17,959	25,770	119,117
Customer accounts	(14,446)	(2,258)	(1,074)	(76)	-	-	(17,854)
Other liabilities	-	-	-	-	-	(4,473)	(4,473)
Shareholders' funds	-	-	-	-	-	(96,790)	(96,790)
Total liabilities	(14,446)	(2,258)	(1,074)	(76)	-	(101,263)	(119,117)
Interest rate sensitivity gap	38,584	(2,258)	(1,074)	22,282	17,959	(75,493)	-
Cumulative gap	38,584	36,326	35,252	57,534	75,493	-	-

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

	2011	2010
	£000	£000
Salaries and other short-term benefits	**2,095**	2,049
Share based payment cost	**50**	-
Contributions to pension arrangements	**152**	174
	2,297	2,223

(All amounts in Pounds thousands unless otherwise stated)

Banking transactions with key management

The bank provides banking services to Directors and other Key Management Personnel and persons connected to them Transactions during the year and the balances outstanding at 31 December 2011 were as follows

	2011	2010
	£000	£000
Loans payable to the bank		
Loans outstanding at 31 December 2010 (19 September 2009)	2	-
Loans issued during the year	475	8
Loan repayments during the year	(10)	(6)
Loans outstanding at 31 December 2011 (31 December 2010)	467	2
Deposits or other liabilities payable by the bank		
Deposits outstanding at 31 December 2010 (19 September 2009)	1,296	2,842
Deposits received during the year	39,564	11,226
Deposit repayments during the year	(38,546)	(12,772)
Deposit outstanding at 31 December 2011 (31 December 2010)	2,314	1,296
Net interest income		
Interest receivable	4	-
Interest expense	11	-

There were two (31 December 2010 one) loans outstanding at 31 December 2011 totalling £467,000 (31 December 2010 £2,000) The loans comprise a residential mortgage on normal commercial terms and a season ticket loan The maximum loans outstanding during the year were £469,000 (31 December 2010 £8,000)

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 above All banking services provided to key management personnel are on the same terms and conditions applicable to other employees within the bank

(All amounts in Pounds thousands unless otherwise stated)

Other transactions with related parties

The following transactions were carried out with related parties

	2011 £000	2010 £000
Purchases of services		
– entity connected to key management personnel	**2,136**	1,992

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 Vice-Chairman

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, including design and development of marketing and promotional materials for brochures, use in store and at key events The current agreement will terminate on 30 June 2012 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

25. Capital management

The bank is subject to the capital requirements set by its regulator the Financial Services Authority ("FSA") Capital comprises share capital, share premium and reserves, subject to various adjustments required by the FSA's capital rules

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

(All amounts in Pounds thousands unless otherwise stated)

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CHAIRMAN'S STATEMENT
For the twelve months ended 31 December 2011

Co-founder Vernon Hill and I are proud to report on the second financial trading statement for Metro Bank PLC.

When Metro Bank launched in July 2010 our belief was that UK consumers and businesses wanted a better banking experience, and that they would embrace our model of service and convenience Since launch the bank has grown ahead of plan, both in terms of deposits and customer numbers. We have seen significant growth in 2011

Key Performance Indicator		Actual 2010	Actual 2011
Accounts		9,000	48,000
	Annual Growth Rate		433%
Loans (£000)		116	42,130
	Annual Growth Rate		NA
Deposits (£000)		17,854	151,608
	Annual Growth Rate		749%

That growth has continued in 2012 and Metro Bank currently has over 85,000 personal and business accounts and deposits have already more than doubled since year-end Metro Bank's successful engagement with London businesses means that business lending currently makes up over half of Metro Bank's lending activity Every week thousands of new customers join our 'banking revolution'

Metro Bank is revolutionary because it introduces a radically different approach to customer service We promise customers an AMAZING service by delivering on our promises which include

- Surprise and delight every customer
- Deliver unlimited convenience
- No stupid bank rules
- Satisfaction guaranteed

Metro Bank currently focuses on central London and the wider "commuter belt" and serves all customer segments The core proposition is built on having stores in the most convenient locations, and open at the most convenient times for our customers. We believe that service and convenience, not price, drives retail and commercial customer acquisition By combining great service with consistent fair rates we are attracting loyal retail and commercial current account customers who will reward us with further business without demanding market leading interest rates

Customers and the media continue to embrace the Metro Bank model. In a recent survey

- 55% of ABC1 Londoners recognise the brand,
- 58% of Londoners aged 25 – 54 recognise the brand; and

- 57% of working Londoners recognise the brand.

Store expansion is a cornerstone of our strategy, based on a rapid roll out of new store locations in London and the South East We have just opened our twelfth store (Chiswick) which was also our first custom built store

To facilitate our growth and maintain our strong capital base we have just completed raising our third tranche of capital in June 2012. We have now raised a total of £250m to build the bank against a backdrop of severe market turbulence This is a testament to the strength of Metro Bank's business model and business performance so far.

In 2011 the bank had a loss after tax of £18,966,000 The loss is as expected and planned and a direct result of significant investment across the business in building stores, infrastructure and systems to enable future growth and scale to be achieved

The bank's relentless focus on customer service and convenience supported by our flexible IT and powerful culture, strongly differentiates us in the market and provides competitive advantage Management and the board continue to focus on building the bank into a major banking force in the UK, aided by a powerful recognised brand The recently completed capital raise will further strengthen the banking revolution and build on the strong foundations

Much of our success to date is down to the hard work of the management team and their colleagues and we would like to take this opportunity to thank them for their commitment

Metro Bank PLC continued to make strong progress in the first half of 2012 We would like to thank our customers and investors for your support in our goal to revolutionise banking in the UK

Anthony Thomson	**Vernon Hill**
Chairman	Vice Chairman

19 June 2012