

Metro Bank PLC

Financial Statements

Period Ended 31 December 2010



Metro Bank PLC
Report and Accounts
Period ending 31 December 2010

(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)

Eugene Lockhart

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

Hay's Galleria

1 Hay's Lane

London

SE1 2RD

Registered Number

6419578

www.metrobankonline.co.uk

Authorised and regulated by the Financial Services Authority
Member of British Bankers Association

CHAIRMAN'S STATEMENT

For the sixteen months ended 31 December 2010

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

When Metro Bank launched last July our belief was that UK consumers and businesses wanted a better banking experience, and that they would embrace our model of service and convenience. The response - from consumers and businesses - has been extraordinary

- Over 20,000 accounts were opened in our first ten months,
- Holborn, our first store, exceeded its first year's account target in its first month,
- Our first four stores collectively exceeded their annual account opening target in their first three months

Every day of the week hundreds of new customers join our 'banking revolution'

Metro Bank is revolutionary because it introduces a radically different approach to customer service

Store expansion is a cornerstone of our strategy, based on a rapid roll out of new store locations, because of the overwhelming customer response we accelerated our initial store opening programme from four to eight in our first year. We have just opened our eighth store (Croydon) where we enjoyed our best opening yet

To facilitate our growth and maintain our strong capital base we raised a second tranche of capital in December 2010. The original placement of £45 million was oversubscribed and £51.75 million was raised (the maximum allowable under the terms of the placement). This additional capital was raised at £9 per share, a premium of 20% to the original share price.

Metro Bank focuses on central London and the wider "commuter belt" and will serve 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 have already extended our Sunday opening hours by an hour to reflect customer demand.

We believe that convenience, not price, drives retail and commercial customer acquisition. By combining great service with fair rates we are attracting loyal retail 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.

Metro Bank is as much a commercial bank as it is a retail bank. The commercial business will be built on close personal relationships. Small businesses are served directly by managers in the stores. In addition we maintain a dedicated commercial lending team, with individuals that both originate and act as the relationship manager to commercial and corporate businesses. We have been positively overwhelmed with interest from the SME community and are building strong and lasting relationships.

Metro Bank has the most modern banking information technology in Britain. At the recent Financial Services Technology awards in London the bank won three awards including the overall award for best technology. This technology gives us a competitive edge in the UK market and is a major element in our drive to create a new, revolutionary model and brand by creating "Fans Not Customers".

We promise customers an AMAZING service by delivering on our promises to

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

Opening the first new High Street bank in over 100 years was a major undertaking, indeed since authorisation in March 2010 no other new bank has been authorised. 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 support.

Metro Bank PLC continued to make strong progress in the first half of 2011. We would like to thank you for your support in our goal to revolutionise banking in the UK.

Anthony Thomson
Chairman

Vernon Hill
Vice Chairman

(All amounts in Pounds thousands unless otherwise stated)

DIRECTORS' REPORT

For the sixteen months ended 31 December 2010

Financial Statements

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

Comparatives are for the ten months ended 18 September 2009. The financial statements for the period ended 18 September 2009, forming the corresponding figures of the financial statements for the period ended 31 December 2010, are unaudited because the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

Change in accounting period

The bank converted to a Public Limited Company ("PLC") on 18 September 2009 and changed its accounting reference date to 31 December. It has therefore chosen to run a long accounting period from 19 September 2009 to 31 December 2010 (referred to as "sixteen months ended 31 December 2010").

Principal Activities and Business Review

The principal purpose of the bank is to provide a wide range of banking services to business and retail customers, 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 was incorporated on 6 November 2007 as a private company limited by shares under the name Metro Bank Limited. It re-registered as a public liability company under the current name on 29 September 2009.

The bank opened its first branch on 29 July 2010 and now has four branches in the London area, with a further eight branches in development which will open in London during 2011. Prior to 29 July the bank was recruiting and training staff and building the IT platform to support its future retail and commercial banking activities.

The operating loss after taxation for the 16 month period ended 31 December 2010 is £23,386,000 (September 2009 Profit £1,043,000). The loss is a direct result of significant investment across the business in building infrastructure and systems to enable future growth and scale to be achieved.

The number of employees at 31 December 2010 was 185 (September 2009 6).

Investment in the Business Systems and Support Structure

Fixed asset additions in the period of £15,321,000 (September 2009 £3,163,000) and additions to Intangible assets of £6,351,000 (September 2009 £729,000) comprised investments in new branches and IT systems and infrastructure. This investment is ongoing and the bank is forecast to spend over £13,194,000 during 2011 on further branches and enhancing technology infrastructure.

(All amounts in Pounds thousands unless otherwise stated)

Investment securities

Metro Bank has a small portfolio of securities. These investments are in UK Government securities and other highly rated bonds, and all investments are denominated in Sterling. As at 31 December 2010, the value of these investments was £40,296,000 (September 2009: nil).

Customer Deposits

A major source of funding for Metro Bank is from retail deposits. Deposit balances were £17,854,000 at 31 December 2010 (2009: £nil).

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 period to 31 December 2010, the Directors are satisfied that Metro Bank has sufficient capital and liquidity resources to continue its expansion plan.

Principal Risks and Uncertainties

As a result of its normal business activities the bank is exposed to a variety of risks, the most significant of which are, credit risk, market risk, liquidity risk, interest rate risk and operational risk. Metro Bank has a Chief Risk Officer who is responsible for ensuring each risk is adequately monitored, managed and mitigated.

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.

Further information on risk management is contained within note 22.

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 period.

Tier 1 capital	£89.8m
Risk weighted assets	£19.0m
Tier 1 ratio	474%
Surplus eligible liquidity ratio	3323%

Results and Dividends

The results for the period are set out in the Statement of comprehensive income on page 8. No dividends are paid or payable in respect of the sixteen months ended 31 December 2010 (2009: £nil).

(All amounts in Pounds thousands unless otherwise stated)

Share capital

Ordinary share capital was increased during the period by the issue of 15,750,000 A Ordinary shares and 1,000,000 B Ordinary shares, credited as fully paid, in consideration for payments of £126.75m

Creditor Payment Policy

Metro Bank values its suppliers and acknowledges the importance of paying invoices, especially those of small businesses, in a timely manner. The bank's policy is to agree to the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment and pay in accordance with contractual and other legal obligations. 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 2010 of £1,269,000 (2009: £972,000). The trade creditor days figure was 32 at 31 December 2010.

Political and Charitable Donations

Metro Bank made £10,000 (2009: £nil) charitable donations and no political donations (2009: £nil) in the sixteen months ended 31 December 2010.

Diversity

The diversity agenda at Metro Bank seeks to include customers, colleagues and suppliers. Our objective is to recruit and retain the best people, regardless of (but not limited to) race, religion, age, gender, sexual orientation or disability. 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.

Directors

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

Vernon Hill
Anthony Thomson
Stuart Bernau (appointed 7 March 2010)
Mike Brierley (appointed 7 March 2010)
Keith Carby (appointed 7 March 2010)
Craig Donaldson (appointed 7 March 2010)
Howard Flight (appointed 7 March 2010)
Alastair Ben Gunn (appointed 7 March 2010)
Eugene Lockhart (appointed 7 March 2010)
Graeme Hardie (appointed 28 October 2010)

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

(All amounts in Pounds thousands unless otherwise stated)

state of affairs of the company and of the profit and loss of the company for that period. In preparing these financial statements, the Directors are required to

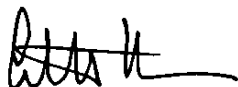
- Select suitable accounting policies and then apply them consistently,
- Make judgements and accounting estimates that are reasonable and prudent,
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Statement of disclosure of information to auditors

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

This report was approved by the Board on 15 March 2011 and was signed on its behalf by



Anthony Thomson
Chairman
15 March 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC

We have audited the financial statements of Metro Bank PLC for the period ended 31 December 2010 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 pages 4 and 5, 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 2010 and of its loss and cash flows for the period from 19 September 2009 to 31 December 2010,
- 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 period 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.

Metro Bank PLC
Report and Accounts
Period ending 31 December 2010

Other matter

The financial statements for the period ended 18 September 2009, forming the corresponding figures of the financial statements for the period ended 31 December 2010, are unaudited

A handwritten signature in black ink, appearing to read 'Hemione Hudson' followed by a stylized monogram.

Hemione Hudson (Senior Statutory Auditor)

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

16 March 2011

(All amounts in Pounds thousands unless otherwise stated)

**Statement of comprehensive income
For the sixteen months ended 31 December 2010**

	Note	Sixteen months ended 31 December 2010	Unaudited Ten months ended 18 September 2009
		£'000	£'000
Interest and similar income		196	1
Interest and similar expense		15	-
Net Interest Income		181	1
Fees and commissions receivable		5	-
Other operating income		-	3,800
Total		186	3,801
Operating expenses	3, 4, 5,6	22,045	2,758
Depreciation and amortisation	11,12	1,527	-
		23,572	2,758
(Loss) / Profit before tax		(23,386)	1,043
Taxation	7	-	-
(Loss) / Profit after tax and total comprehensive income		(23,386)	1,043

The accounting policies and notes on pages 12 to 37 form part of these financial statements

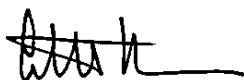
(All amounts in Pounds thousands unless otherwise stated)

Balance Sheet
As at 31 December 2010

	Notes	31 December 2010	Unaudited 18 September 2009
		£'000	£'000
Assets			
Cash and balances with the Bank of England		48,436	-
Loans and advances to banks	8	4,499	1,296
Loans and advances to customers	9	116	-
Investment securities held to maturity	10	40,296	-
Intangible assets	11	6,979	1,028
Tangible fixed assets	12, 13	17,338	3,146
Prepayments and accrued income		418	-
Other assets	14	1,035	-
Total assets		119,117	5,470
Liabilities			
Deposits from customers	15	17,854	-
Other liabilities	16	4,473	5,375
Total liabilities		22,327	5,375
Equity			
Called up share capital	17	-	50
Share premium	17	120,131	-
Retained earnings	18	(23,341)	45
Total equity		96,790	95
Total equity and liabilities		119,117	5,470

The accounting policies, notes and information on pages 12 to 37 form part of the financial statements

These financial statements were approved by the Board of Directors on 15 March 2011 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 sixteen months ended 31 December 2010

	Sixteen months ended 31 December 2010	Unaudited Ten months ended 18 September 2009
	£'000	£'000
Reconciliation of profit before tax to net cash flows from operating activities		
Profit before tax	(23,386)	1,043
Adjustments for		
Non-cash items included in profit before tax	1,527	26
Changes in operating assets	(1,569)	-
Changes in operating liabilities	16,954	3,939
Net cash flows from operating activities	(6,474)	5,008
Cash flows from investing activities		
Purchase of investment securities	(40,296)	-
Purchase of property, plant and equipment	(15,321)	(3,163)
Purchase of intangible assets	(6,351)	(729)
Net cash flows from investing activities	(61,968)	(3,892)
Cash flows from financing activities		
Share issues	120,131	50
Repayment of preferred shares	(50)	-
Net cash flows from financing activities	120,081	50
Net increase in cash and cash equivalents	51,639	1,165
Cash and cash equivalents at start of period	1,296	131
Cash and cash equivalents at end of period	52,935	1,296

(All amounts in Pounds thousands unless otherwise stated)

Statement of changes in equity

	Share capital	Share premium	Retained earnings	Total equity
	£000	£000	£000	£000
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
 Balance at 1 December 2008 (Unaudited)	 -	 -	 (998)	 (998)
Net profit for the period	-	-	1,043	1,043
Issue of preference shares	50	-	-	50
Balance as at 18 September 2009	50	-	45	95

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

(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 has therefore chosen to run a long accounting period from 19 September 2009 to 31 December 2010 (referred to as "sixteen months ended 31 December 2010").

The financial statements for the period ended 18 September 2009, forming the corresponding figures of the financial statements for the period ended 31 December 2010, are unaudited because the company was entitled to exemption under section 477 of the Companies Act 2006 relating to small companies.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 22.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments.

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.

(All amounts in Pounds thousands unless otherwise stated)

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 period 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.

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. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition, non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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

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

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, 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

(All amounts in Pounds thousands unless otherwise stated)

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: financial assets at fair value through profit or loss, 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) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are recognised initially at fair value, transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Net gains/ (losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income'. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed.

(b) 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

(All amounts in Pounds thousands unless otherwise stated)

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'.

(c) 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.

(d) 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.

(e) 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.

(All amounts in Pounds thousands unless otherwise stated)

2.3.2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value), financial liabilities at amortised cost and hedging derivatives. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. Those financial instruments are recognised in the statement of financial position as 'Financial liabilities held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the income statement and are reported as 'Net gains/ (losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

The Bank designated certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently. According to IAS 39, the fair value option is applied, as the debt securities consists of debt host and embedded derivatives that must otherwise be separated.

Financial liabilities for which the fair value option is applied are recognised in the statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

(b) 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.

(c) 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

(All amounts in Pounds thousands unless otherwise stated)

amounts

(d) 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 a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term In addition, 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 recognized 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 recognized 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

(All amounts in Pounds thousands unless otherwise stated)

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 generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis.

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.

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.

(All amounts in Pounds thousands unless otherwise stated)

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 Banked on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors) Those characteristics are relevant to the estimation of future cash flows for Banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude) The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience

When a loan is uncollectible, it is written off against the related allowance for loan impairment Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (hold to maturity and loans and receivables categories) are classified in 'Net gains/ (losses) on investment securities'

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account The amount of the reversal is recognised in the income statement

(b) Assets classified as available for sale

The Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a Bank of financial assets is impaired

2.8 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less

2.9 Leases

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

(All amounts in Pounds thousands unless otherwise stated)

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.

2.10 Property, plant and equipment

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

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

The Bank uses the following annual rates in calculating depreciation:

<i>Leasehold property</i>	Over the remaining life of the lease
<i>Computers and similar equipment</i>	20%
<i>Fixtures and fittings and other equipment</i>	20%

Where leasehold property has a remaining useful life of less than 15 years, costs are depreciated over the remaining life of the lease.

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.

2.11 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.

(All amounts in Pounds thousands unless otherwise stated)

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 recognized if the carrying amount exceeds the recoverable amount.

Acquired computer software licences 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.

2.12 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 temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or 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 temporary differences arise from depreciation of property, plant and equipment, and revaluation of certain financial assets and liabilities.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised.

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.

2.13 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.

2.14 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.

2.15 Comparatives

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

(All amounts in Pounds thousands unless otherwise stated)

3. Staff Costs

	Sixteen months ended 31 December 2010	Unaudited Ten months ended 18 September 2009
	£'000	£'000
Wages and salaries	4,545	150
Social security costs	1,153	93
Pension costs	337	21
	<u>6,035</u>	<u>264</u>

The average number of persons employed by the company during the period was 70 (September 2009 2)

4. Directors' emoluments

	Sixteen months ended 31 December 2010	Unaudited Ten months ended 18 September 2009
	£'000	£'000
The remuneration of the Directors of the company was		
Emoluments (including benefits in kind)	1,266	60
Contributions to individual personal pension plans	97	3
	<u>1,363</u>	<u>63</u>

The bank made contributions to individual personal pension plans in respect of 3 directors (2009 1 director)

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

	Sixteen months ended 31 December 2010	Unaudited Ten months ended 18 September 2009
	£'000	£'000
Emoluments	408	60
Contributions to individual personal pension plan	32	3
	<u>440</u>	<u>63</u>

5. Pension costs and commitments

The bank operates a defined contribution arrangement for employees. Metro Bank made payments amounting to £304,000 (September 2009 £10,000) to employees' individual personal pension plans during the period.

(All amounts in Pounds thousands unless otherwise stated)

6. Loss/ (Profit) on ordinary activities before taxation

	Sixteen months ended 31 December 2010 £'000	Unaudited Ten months ended 18 September 2009 £'000
This is arrived at after charging / (crediting)		
Operating lease rentals	2,461	-
Interest payable on Customer accounts	15	-
Fees payable to the company's auditors for audit services	53	-
Fees payable to the company's auditors for tax services	52	-
Fees payable to the company's auditors for other services	-	-
Exchange differences	(150)	-

7. Taxation

	Sixteen months ended 31 December 2010 £'000	Unaudited Ten months ended 18 September 2009 £'000
Current tax		
UK corporation tax	-	-
Adjustment in respect of prior years	-	-
Total current tax	-	-
Deferred tax		
Current period	-	-
Adjustment in respect of prior years	-	-
Total deferred taxation	-	-
Total taxation	-	-

Total tax paid in relation to income during the period was £nil (September 2009 £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. To date, no deferred tax asset has been recognised as there is insufficient certainty over the ability of the bank to use the amounts in the future.

Analysis of unrecognised deferred tax balance	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Losses carried forward (at 27% tax rate)	6,302	-
	6,302	-

(All amounts in Pounds thousands unless otherwise stated)

8. Loans and advances to banks

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Repayable on demand	4,499	1,296
Repayable in not more than three months	-	-
	<u>4,499</u>	<u>1,296</u>

There were no provisions against loans to banks

9. Loans and advances to customers

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Repayable in not more than three months	126	-
Repayable in more than three months but not more than one year	-	-
Repayable in more than one year but not more than five years	21	-
	<u>147</u>	<u>-</u>
Amounts include		
Repayable on demand or at short notice	<u>126</u>	<u>-</u>
Non-performing loans and advances to customers		
- Loans and advances before provisions	31	-
- Loans and advances after provisions	<u>-</u>	<u>-</u>

10. Investment securities: held to maturity

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Government and supranational investment securities	<u>40,296</u>	<u>-</u>
Investment securities have remaining maturities as follows		
- Accrued interest	454	-
- In not more than one year	-	-
- In more than one year	39,842	-
	<u>40,296</u>	<u>-</u>

(All amounts in Pounds thousands unless otherwise stated)

11. Intangible assets

2010

Cost or valuation

19 September 2009	1,028
Additions	6,351
Disposals	-
31 December 2010	<u>7,379</u>

Depreciation

19 September 2009	-
Disposals	-
Charge for the period	400
31 December 2010	<u>400</u>

Net book value	<u>6,979</u>
31 December 2010	

2009

Computer software £'000

Cost or valuation

1 December 2008	299
Additions	729
Disposals	-
18 September 2009 (Unaudited)	<u>1,028</u>

Depreciation

1 December 2008	-
Disposals	-
Charge for the period	-
18 September 2009 (Unaudited)	<u>-</u>

Net book value	<u>1,028</u>
18 September 2009 (Unaudited)	

(All amounts in Pounds thousands unless otherwise stated)

12. Tangible fixed assets

2010

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

2009

	Leasehold property £'000	Fixtures fittings & equipment £'000	Computers £'000	Total £'000
<i>Cost or valuation</i>				
1 December 2008	8	-	-	8
Additions	2,535	6	622	3,163
Disposals	-	-	-	-
18 September 2009 (Unaudited)	<u>2,543</u>	<u>6</u>	<u>622</u>	<u>3 171</u>
<i>Depreciation</i>				
1 December 2008	-	-	-	-
Disposals	-	-	-	-
Charge for the period	15	-	10	25
18 September 2009 (Unaudited)	<u>15</u>	<u>-</u>	<u>10</u>	<u>25</u>
Net book value 18 September 2009 (Unaudited)	<u>2,528</u>	<u>6</u>	<u>612</u>	<u>3,146</u>

13. Future capital expenditure

At 31 December 2010 there was £3,079,000 capital expenditure authorised but not contracted for or contracted but not provided for (September 2009 nil)

(All amounts in Pounds thousands unless otherwise stated)

14. Other assets

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Primarily refundable collateral	1,035	-
	<u>1,035</u>	<u>-</u>

15. Deposits from customers

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Repayable on demand	11,807	-
Repayable in not more than three months but not on demand	-	-
Repayable in more than three months but not more than one year	5,367	-
Repayable in more than one year but not more than five years	680	-
	<u>17,854</u>	<u>-</u>

16 Other liabilities

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Trade creditors	1,269	972
Other taxation and social security costs	3	-
Other creditors	3,201	4,402
	<u>4,473</u>	<u>5,374</u>

17. Called up share capital

A Ordinary shares

As at 31 December 2010, the bank had issued 16 75 million A Ordinary shares of 0 0001 pence. During the period, the bank issued 15 75 million A Ordinary shares, for consideration of £126 75 million.

B Ordinary shares

As at 31 December 2010, the bank had issued 1 million B Ordinary shares of 0 0001 pence. During the period, the bank issued 1 million B Ordinary shares to employees, consultants and non executive directors, for consideration of £5,000.

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

(All amounts in Pounds thousands unless otherwise stated)

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.

Preference shares

All issued preference shares were redeemed by the bank on 4 March 2010

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Called up ordinary share capital, allotted and fully paid		
At beginning of period	-	-
Issued	-	-
At end of period	-	-

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Called up preference share capital, allotted and fully paid		
At beginning of period	50	-
Issued	-	50
Repaid	(50)	-
At end of period	-	50

	31 December 2010 £'000	Unaudited 18 September 2009 £'000
Share premium account		
At beginning of period	-	-
Issued	120,131	3,800
Transfer to reserves	-	(3,800)
At end of period	120,131	-

18. Reconciliation of movements in retained earnings

	£'000
18 September 2009	45
Loss for the period	(23,386)
31 December 2010	(23,341)

(All amounts in Pounds thousands unless otherwise stated)

19. Financial commitments

At 31 December 2010, Metro Bank had irrevocable undrawn loan facilities granted to commercial customers of £nil

In addition the bank has, as part of its retail and commercial operations, commitments of £1.5m (2009 £nil) in respect of residential mortgages, 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.

20. 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:

	2010 £'000	Unaudited 2009 £'000
Amounts falling due		
Within one year	2,378	857
Between one and five years	14,470	11,949
After five years	35,023	24,745
	<u>51,871</u>	<u>37,551</u>

21. Assets and liabilities denominated in foreign currency

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

22. Financial instruments

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

The main risks arising from Metro Bank's financial instruments are credit risk, liquidity risk and interest rate risk. The Directors review and agree policies for managing each of these risks and these are summarised as follows:

Credit risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk is the principal risk encountered by Metro Bank. Credit risk principally arises from lending activities, but can also arise from other on and off balance sheet activities such as

(All amounts in Pounds thousands unless otherwise stated)

the issue of guarantees Metro Bank manages its credit risk by limiting its exposure to certain sectors of business, by carrying out appropriate checks on its customers and taking appropriate security to protect itself in the event of a default

Liquidity risk

Liquidity risk is the risk than an entity encounters difficulty in realising assets or otherwise raising funds to meet commitments associated with liabilities or financial obligations Metro Bank has always met its own internal liquidity policy limits and FSA regulatory requirements with significant headroom Metro Bank monitors closely the profile of deposits and has the flexibility to quickly amend the interest rates on offer to rebalance the profile of deposits in the prevailing market conditions

(All amounts in Pounds thousands unless otherwise stated)

Contractual maturity of assets and liabilities

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
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	53,030	-	-	22,358	17,959	-	93,347
Other assets						25,770	25,770
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)
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	38,584	36,326	35,252	57,534	75,493	-	-

(All amounts in Pounds thousands unless otherwise stated)

18 September 2009 (Unaudited)	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	1,296	-	-	-	-	-	1,296
Loans to banks	-	-	-	-	-	-	-
Loans to customers	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-
Total financial assets	1,296	-	-	-	-	-	1,296
Other assets	-					4,174	4,174
Total assets	1,296	-	-	-	-	4,174	5,470
Liabilities							
Customer accounts	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	(5,375)	(5,375)
Total financial liabilities	-	-	-	-	-	(5,375)	(5,375)
Capital	-	-	-	-	-	(95)	(95)
Total liabilities	-	-	-	-	-	(5,470)	(5,470)
Cumulative liquidity gap	1,296	1,296	1,296	1,296	1,296	-	-

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates

Metro Bank finances its loan book from customer deposits and shareholder's funds. At present a minority of Metro Bank's lending to customers is at fixed rates or subject to a minimum fixed rate (set with reference to the market at the time the loan is made) whilst £5,747,000 of customer's deposits are at fixed rates. The table below summarises the repricing mismatches as at 31 December 2010. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

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

(All amounts in Pounds thousands unless otherwise stated)

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	-	-

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 18 September 2009

18 September 2009 (Unaudited)	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	1,296	-	-	-	-	-	1,296
Loans to customers	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	4,174	4,174
Total assets	1,296	-	-	-	-	4,174	5,470
Customer accounts	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	(5,375)	(5,375)
Shareholders' funds	-	-	-	-	-	(95)	(95)
Total liabilities	-	-	-	-	-	(5,470)	(5,470)
Interest rate sensitivity gap	1,296	-	-	-	-	(1,296)	-
Cumulative gap	1,296	1,296	1,296	1,296	1,296	-	-

(All amounts in Pounds thousands unless otherwise stated)

23. 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 period by category of benefit was as follows

	2010	Unaudited 2009
	£000	£000
Salaries and other short-term benefits	2,049	123
Contributions to pension arrangements	174	9
	<u>2,223</u>	<u>132</u>

In addition key management personnel were given the opportunity to purchase £866,000 B shares and participate in the B share ownership plan. The purpose of the Plan is to allow participants to share in the ownership of the Company and in the future success and growth of the Metro Bank Group.

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 period and the balances outstanding at 31 December 2010 were as follows

	2010	Unaudited 2009
	£000	£000
Loans payable to the bank		
Loans outstanding at 19 September 2009 (1 December 2008)	-	-
Loans issued during the period	8	-
Loan repayments during the period	(6)	-
Loans outstanding at 31 December 2010 (18 September 2009)	<u>2</u>	<u>-</u>
Deposits or other liabilities payable by the bank		
Deposits outstanding at 19 September 2009 (1 December 2008)	2,842	1,077
Deposits received during the period	11,226	5,615
Deposit repayments during the period	(12,772)	(3,850)
Deposit outstanding at 31 December 2010 (18 September 2009)	<u>1,296</u>	<u>2,842</u>
Net interest income		
Interest receivable	-	-
Interest expense	-	-

The loans outstanding at 31 December 2010 of £2,000 are provided on an interest free basis to one member of key management to purchase a commuter rail ticket. The maximum loans outstanding during the period were £8,000. Transactions with key management personnel are on the same terms.

(All amounts in Pounds thousands unless otherwise stated)

and conditions applicable to other employees within the bank

No allowances for impairment were recognised in respect of loans to directors or other members of Key Management Personnel in the period ended 31 December 2010

Other transactions with related parties

The following transactions were carried out with related parties

	2010 £000	Unaudited 2009 £000
Purchases of services		
– entity connected to key management personnel	1,992	555

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 negotiated percentage of projected building costs and fees. Certain services are provided on an hourly basis. The current agreement terminates on 30 June 2011 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, development of graphics for ATM screens and cards and assistance with website editing. The budget for each piece of work shall be agreed in advance by the bank. The current agreement will terminate on 31 March 2011 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 in all Metro Bank banking systems elements, which include layout of premises, web sites, interior and external signage and graphics, letterhead and business design, advertising materials, promotional items, furniture and software, together with all copyright design and database rights which arise from InterArch's provision of services to the bank. Outside of the UK, InterArch is granted the right to use, license and sell the UK and US Metro Bank banking systems elements, provided any third party agrees not to use such elements in the UK.

24. Capital management

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

During the period since authorisation on 5 March 2010 the bank has fully complied with the capital

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requirements set by the FSA. Further details about the bank's capital position can be found in the directors' report.

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