Metro Bank PLC

Annual Report

Year Ended 31 December 2015

Contents

Company Information

Board of Directors

Non-Executive Chairman
Vernon W. Hill II

Non-Executive Directors
Stuart Bernau
Keith Carby
Roger Farah
Lord Howard Flight
Alastair (Ben) Gunn (Senior Independent Director)
Gene Lockhart
Sir Michael Snyder

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

A Revolution in Banking

Metro Bank PLC ("Metro Bank" or "the Bank") is Britain's first new High Street bank in over 100 years. We offer a superior retail-focussed customer service proposition that emphasises simple, straightforward banking in order to turn our customers into "FANS".

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 40 stores (not 'branches') across London and the surrounding commuter areas, with approximately 655,000 customer accounts, £5,108 million in deposits from customers and £3,549 million of gross loans and advances to customers as of 31 December 2015.

Driven by and reflective of its customer service-led model and culture, Metro Bank's "stores" are open seven days a week, early morning until late. Metro Bank also supports 24/7 telephony, digital and mobile banking, and offers simple products and fair pricing.

Metro Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority. Metro Bank is a member of the British Bankers Association.

Financial Highlights

The following metrics represent the core key performance indicators for the bank:

	2015	2014	Growth
Number of stores	40	31	29%
Profit and loss			
Statutory loss after tax	£(49.2)m	£(41.1)m	(20%)
Underlying loss after tax*	£(40.7)m	£(41.1)m	1%
Total income	£120.2m	£75.4m	59%
Total operating expenses	£170.0m	£122.2m	39%
Customer ratios			
Customer loans before provisions	£3,549m	£1,596m	122%
Ratio retail customers: commercial customers	64%:36%	55%:45%	
Customer deposits	£5,108m	£2,867m	78%
Ratio retail customers: commercial customers	36%:64%	36%:64%	
Loan to deposit ratio	69%	56%	
Loan loss reserve to total loans	0.19%	0.34%	
Net interest margin in year	2.00%	2.06%	
Average cost of deposits in year	0.82%	0.90%	
Capital ratios			
Common Equity Tier 1 (“CET1”) ratio	13%	28%	
Regulatory leverage ratio	5%	10%	
Capital as %age Deposits	8%	16%	
Capital as %age of total assets	7%	13%	
Total assets	£6,148m	£3,661m	68%

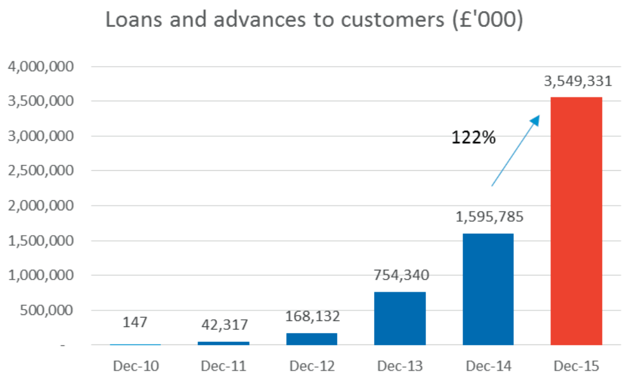
Customer accounts have increased from 447,000 on 1 January 2015 to 655,000 at 31 December 2015.

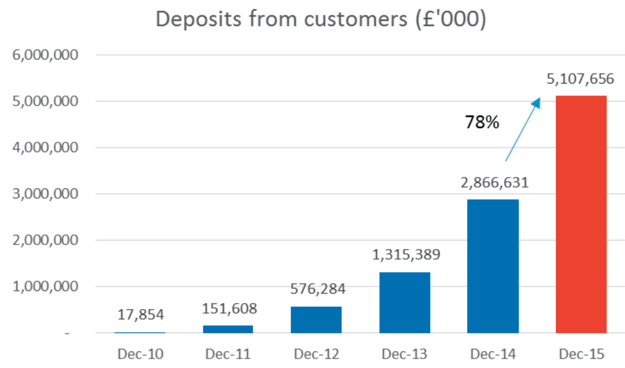
Nearly 2,000 colleagues now work for Metro Bank, with over 400 new permanent jobs created in 2015.

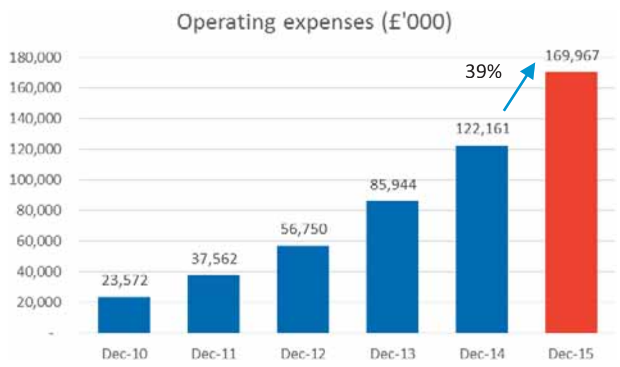
Customer loans before provisions:	Customer deposits:	Number of stores:
£3,549m	**£5,108m**	**40** with 9 stores opened in 2015

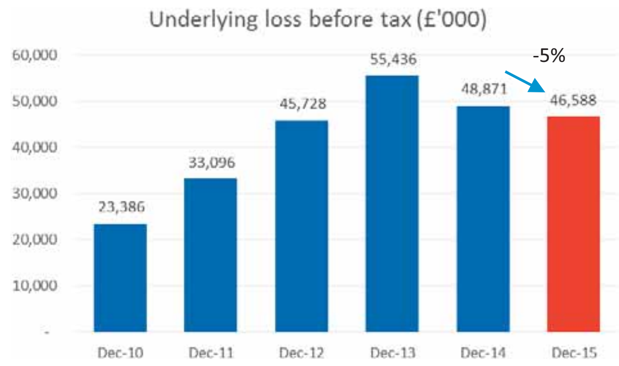
*The underlying loss after tax removes the effects of the fees associated with listing and the impairment of property, plant and equipment and intangible assets.

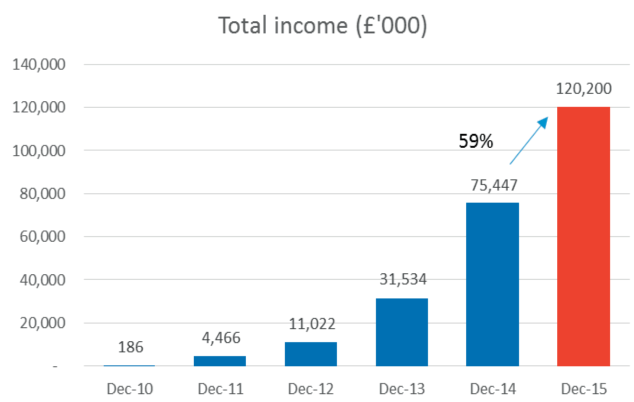
Key Performance Indicators

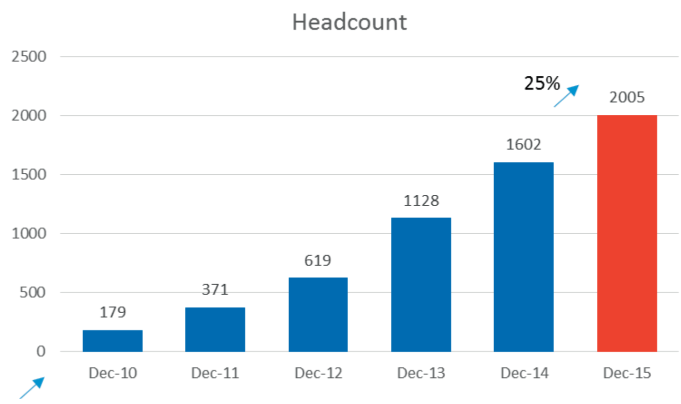












Chairman's Statement

The revolution in British banking began with the launch of Metro Bank on 29 July 2010. We introduced an entirely new model to the UK, designed to create "Fans Not Customers" through the provision of unparalleled service and convenience, and an end to stupid bank rules.

Since then, Metro Bank has been accepted widely by consumers and business customers, and our growth remains unprecedented.

In 2015, we;

- doubled our lending to £3.5bn - up 123%
- grew our deposits to over £5bn - up 78%
- welcomed over 200,000 new customers - up 46% year-on-year.

Microsoft called us "the most innovative bank in Europe", Retail Banker International said we had the "Best Branch Strategy" in the world, and Fairer Finance named our bank account the best in Britain.

The momentum is incredible – but just the beginning.

Our long term growth plan is on track. Our retail network now includes 40 (as at 31 December 2015) stores in Greater London with further nine planned to open in 2016, in areas such as Bexleyheath, Wimbledon and the Kings Road, Chelsea.

Our commercial banking has grown dramatically. As the bank for entrepreneurs, commercial customers remain a key focus for Metro Bank. At the end of Q4, deposits from commercial customers represented 64% of total deposits, and lending to businesses made up 36% of total lending.

Our Management Team, led by CEO Craig Donaldson, continues to do an outstanding job in building our brand. We know great brands always continue to improve the customer experience.

The capital raise we are completing will further support our growth plans and we look forward to listing on the London Stock Exchange.

From a vision in 2008 to a £6bn growth retailer, Metro Bank has become the revolution in British banking.

Thank you to our customers - business and retail - who have embraced Metro Bank, and to our shareholders for their unwavering support.

Our goal remains, **CREATING FANS NOT CUSTOMERS**.

Vernon W. Hill II

Chairman

8 March 2016

Chief Executive's Review

I'm delighted that Metro Bank has had another year of phenomenal growth. We started 2015 with 447,000 customer accounts and closed the year with 655,000. In January 2015 we had 1,602 colleagues working in 31 stores; by Christmas 2015, nearly 2,000 people were working across 40 stores.

This growth was not at the expense of our outstanding delivery and FAN creation: it was as a result of it.

Metro Bank:

is a disruptive retailing model, creating FANS through AMAZE(ING) culture and fanatical execution…

...with our colleagues embracing and living our unique culture...

...which means we Surprise & Delight our customers, creating FANS...

... & our FANs bring us diversified, sticky, low cost deposits…

...which enable us to win low risk diversified lending...

… achieved through an increasingly integrated customer experience through every channel…

...but the store remains key for tangible delivery of the brand in the communities we serve...

…& it is working, proving: Model + Culture + Fanatical Execution = Results

Our approach

Creating FANS from our customers is at the heart of everything we do.

Through our Voice of the Customer Programme we embrace customer feedback from across all our channels - store, telephone, social media, online and app - and use it to constantly improve our offering.

In 2015, our Net Promoter Score - the recognised marketing benchmark gauging customer loyalty - was 80%. Over 83% of respondents were designated "promoters"; people who would recommend Metro Bank to their friends and families.

It is through listening to the needs of our customers that we have also been able to develop some fantastic propositions.

We've bolstered our offering to commercial customers. Our sector specialist teams now focus on delivering for local authorities, social housing organisations, hotels and leisure companies, franchises, not-for-profits, and healthcare companies. Each team offers a wide range of commercial and mortgage lending products, and each has grown significantly in the last 12 months.

We've also helped thousands of people buy their home. We have grown our mortgage team, and launched new propositions that are, as ever, focused on the convenience of our customers. We have rewarded our loyal FANS with an industry leading retention proposition, and launched a mortgage retention portal which enables intermediary brokers and customers to renew Metro Bank mortgages in less than 30 minutes.

The Private Bank specialist teams continue to thrive and make a material contribution to our rapid growth. They remain focused on providing a relationship-driven service through simple banking and lending services. The Private Bank specialist teams focus on Sports and Entertainment; Boards and Partners; and Entrepreneurs and Commercial Private Clients (for those with combined personal and commercial business interests).

Our digital momentum

At the start of 2016 we are developing several exciting projects to ensure our digital offering remains as distinctive and differentiated as our high-touch, in-store experience. The projects will renew our commercial internet offering, personal and business mobile apps and our public website, offering customers easier, more convenient access to a whole range of services. Also, building on the successful introduction of online opening for savings accounts in 2015, we will be rolling out online opening for current accounts in the second half of 2016.

Our opportunities for colleagues

Our culture and our values are our strength.

We attract talent through a combination of culture, compensation (focused on long term share ownership), and the opportunity to join one of the most exciting growth businesses in Britain.

In 2015, we created over 400 new jobs, and promoted close to 350 colleagues. We also expanded our provision of in-house and online training courses through 'Metro Bank University'.

Metro Bank University is designed to help colleagues develop their skills, and offers more than 70 classroom-based courses, overseen by 20 instructors.

Our place in the community

Physically and culturally, our stores are at the centre of the communities they serve. They are key to building relationships with our customers, and turning customers into FANs. In 2015, we supported over 3,000 community and charity events. Metro Bank "Money Zone" - our financial literacy programme – also taught over 21,000 school children, with courses specifically aligned to the National Curriculum.

We have also continued to support our charity partners; Battersea Dogs and Cats Home and Place2Be, the national children's charity providing counselling for children in schools

Our achievements

The views of our customers come first, but like everyone, it's nice when our hard work is recognised.

fairer FINANCE	Metro Bank awarded Gold Ribbon	Moneywise 2015	Most Trusted Current Account Provider (2015)
Moneywise 2015	Highly Commended for Call Centre Service (2015)	Moneywise 2015	Best Current Account for Branch Services (2015)
Retail Banker	Best Branch Strategy Award (2015)	Microsoft Dynamics	Microsoft Technology Microsoft's Visionary Award (2015)
LeasingWorld	New Challenger of the Year Award (2015)	savings champion.co.uk Cash Savings Advice	Best Savings Provider For Existing Customer (2014, 2015)
HR 20 EXCELLENCE AWARDS 2015	Shortlisted for the Best Talent Management Strategy	London Stock Exchange	1000 Companies to Inspire Britain LSE (2014)

Just the beginning

Most exciting of all - this really is just the beginning.

From a vision in 2010 of a revolutionary new bank - to 2,000 colleagues serving 500,000 customers.

And more than customers, they are FANs who recommend us to their friends and families and drive our remarkable growth.

So to Metro Bank's FANs, and to the colleagues who serve them - thank you. The revolution continues.

Craig Donaldson

Chief Executive Officer

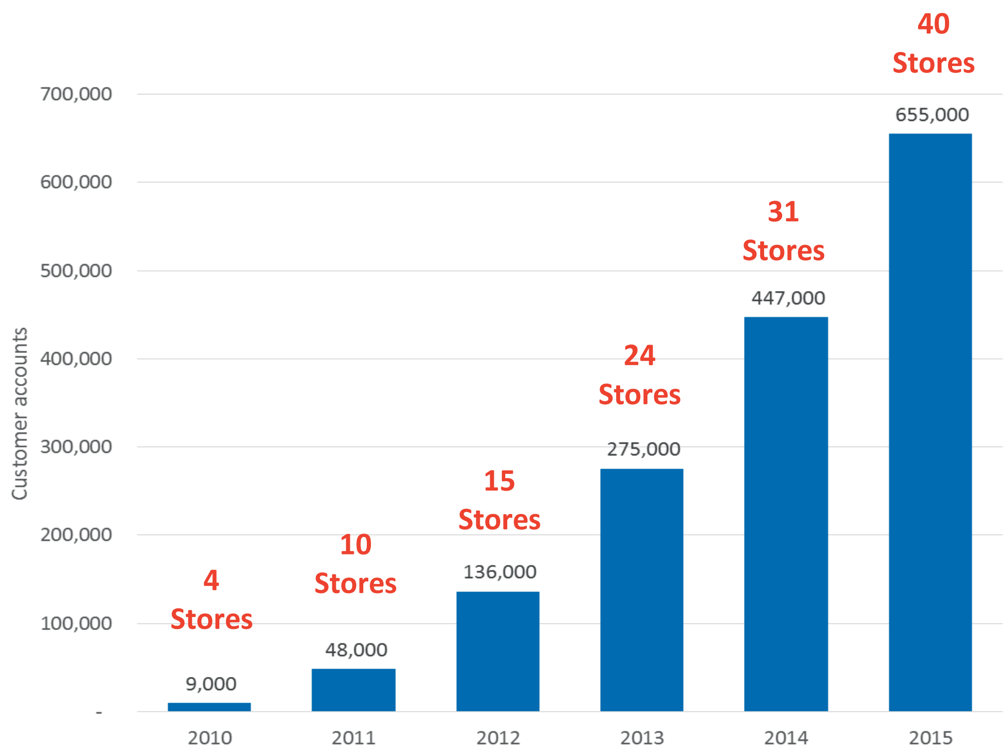
8 March 2016

Strategic Report

Our principal activities during 2015 were the provision of banking and related services through stores, telephony, internet and mobile. Metro Bank ("the Bank" or "the Group") is a deposit-taking and lending institution with a focus on retail and small and medium size commercial customers, offering consistent, transparent 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.

2015 has seen the Bank continue to build on the momentum of prior years and we have continued to deliver against our strategy. The core key performance indicators which reflect the success of the Bank during 2015 are set out on pages 3 of this annual report.

During 2015, stores were opened in Cambridge, Brighton, Southend, Tunbridge Wells, Harrow, Aylesbury, Southall, Newbury and Maidstone. The bank now operates 40 stores across London and the surrounding commuter areas (40 stores as at 31 December 2015). We continue to convert customers into FANS and customer accounts have increased from 447,000 on 31 December 2014 to 655,000 at 31 December 2015. Our AMAZE(ING) growth in store and customer accounts since opening our first store is shown in the graph below.



Income statement review

Summary statement of comprehensive income	2015 £'000	2014 £'000 (restated)*	Annual growth rate
Net interest income	88,873	53,428	66%
Fee and commission income	15,713	12,055	30%
Net gains on sale of investment securities	6,377	5,122	
Other income	9,237	4,842	
Total operating income	120,200	75,447	59%
Operating expenses	(141,563)	(107,940)	31%
Depreciation and amortisation	(18,195)	(14,221)	
Fees associated with listing	(1,465)	-	
Impairment of property, plant & equipment and intangible assets	(8,744)	-	
Credit impairment charges	(7,030)	(2,157)	
Loss before tax	(56,797)	(48,871)	16%

Total operating income increased 59% to £120.2m (2014: £75.4m). Net interest income is the largest component of Metro Bank's total operating income, accounting for 71% and 74% of total operating income in 2014 and 2015 respectively. Income growth reflects continued strong loan growth across all of our lending books and the maintenance of a low cost of funds (cost of deposits of 0.82% for 2015; 2014: 0.90%), as well as an increase in our loan to deposit ratio from 56% at 31 December 2014 to 69% at 31 December 2015.

Metro Bank earns fee and commission income through its range of commercial and retail banking services. In the years ended 31 December 2014 and 2015, Metro Bank earned £12.1 million and £15.7 million in fee and commission income, respectively, of which £3.2 million and £5.3 million, respectively, was attributable to the rental of safe deposit boxes by its customers.

Operating expenses increased 31% to £141.6m (2014: £107.9m) as we continued to invest in strengthening the capacity of our business. The increase in operating expenses was primarily due to the continued expansion of the store network, investment in IT infrastructure and digitisation of the bank and the increase in the number of customer facing colleagues in the lending, private banking and contact centre teams.

Fees associated with the listing predominantly consist of fees paid to third party advisors.

As we continue to grow and invest in our enhanced digital infrastructure and customer offering, we have performed a review of our property, plant & equipment and intangible assets. This has resulted in a write off of assets worth £8.7m, the majority of which related to assets which are currently being withdrawn and enhanced in order to strengthen our digital customer offering.

Credit impairment charges comprise just 0.20% (2014: 0.19%) of our total loan book reflecting the robust underwriting criteria in place when originating new loans.

Loss before tax of £56.8m shows a 16% increase on the prior year. Adjusting for the impairment of property, plant & equipment and intangible assets and the fees associated with the proposed listing, the loss before tax has reduced by 5%.

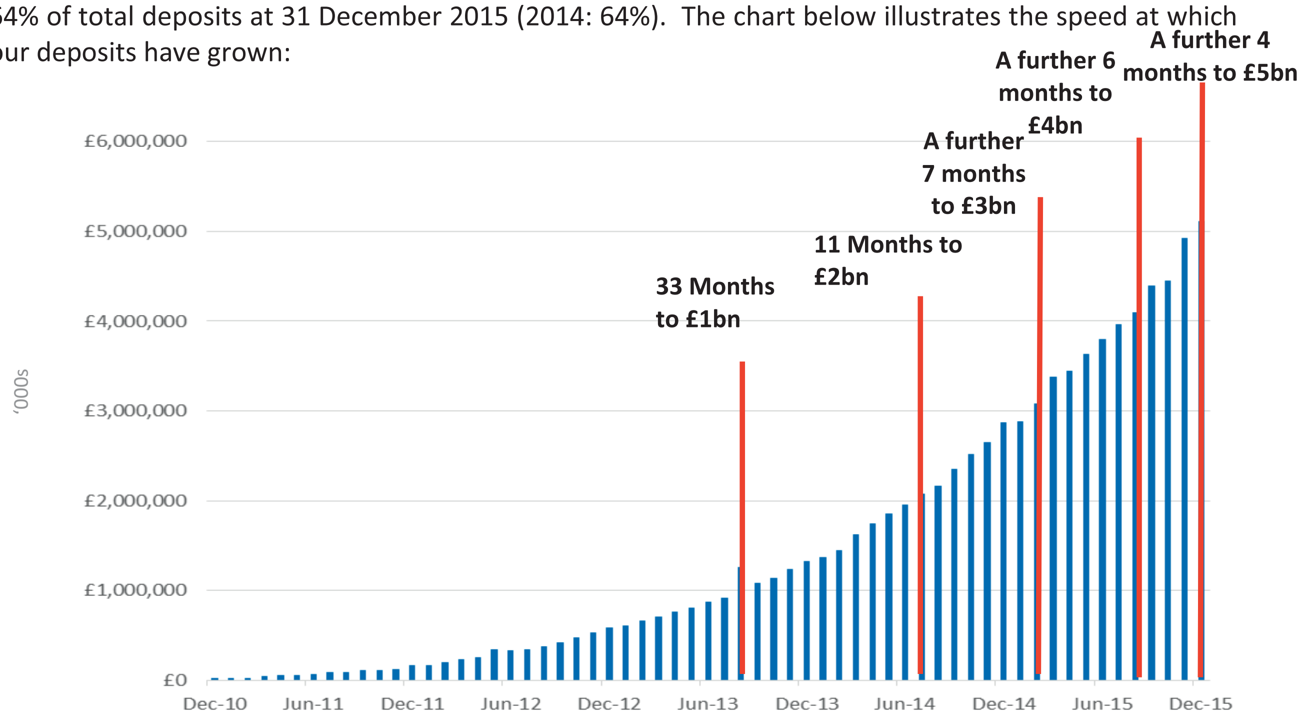
Balance sheet review

Summary balance sheet	2015	2014 (restated)*	Annual growth rate
Assets	**£'000**	**£'000**	
Cash and balances with the Bank of England	217,900	180,630	
Loans and advances to banks	64,248	35,040	
Loans and advances to customers	3,542,548	1,590,346	123%
Investment securities	1,999,792	1,611,451	
Property, plant and equipment	165,257	132,195	
Intangible assets	54,243	34,669	
Other assets	104,034	76,189	
Total assets	6,148,022	3,660,520	68%
Liabilities			
Deposits from customers	5,107,656	2,866,631	78%
Other liabilities	633,191	331,488	
Total liabilities	5,740,847	3,198,119	80%
Total shareholders' equity	407,175	462,401	-12%

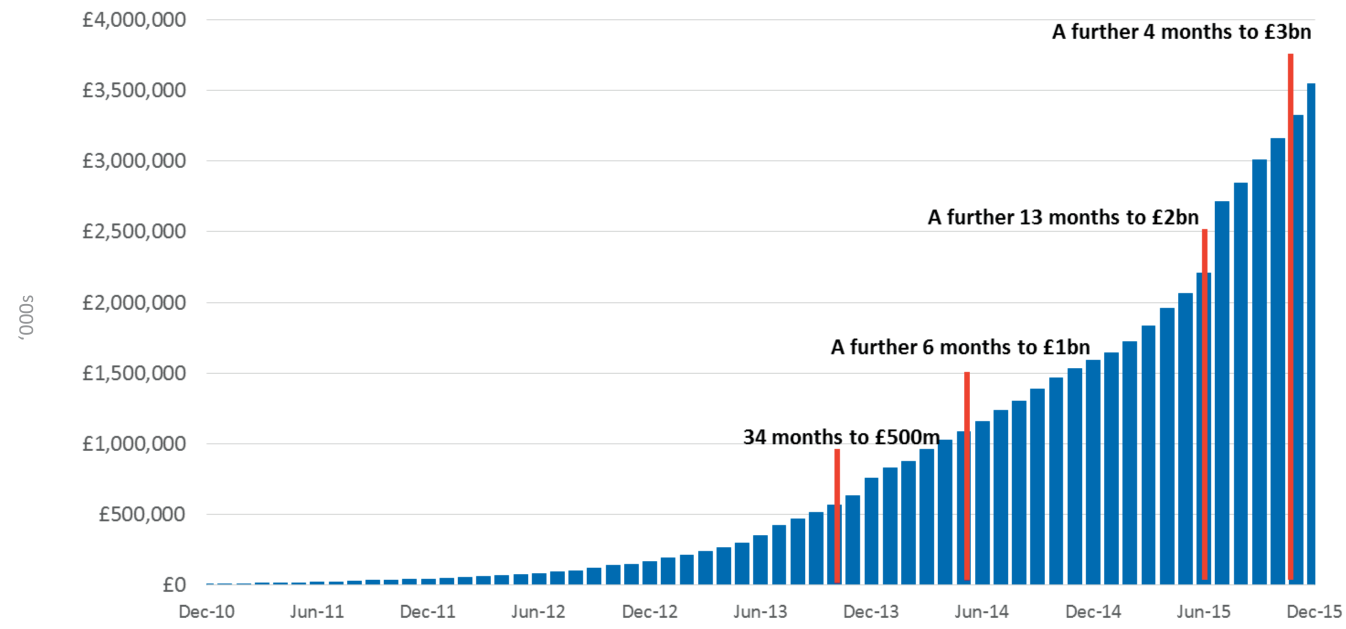
We continue to be focussed on deposit growth in order to fund high quality customer loans.

During 2015, total assets increased by 68% to £6,148m (2014: £3,661m) driven by continued strong growth of loans and advances to customers. A major milestone in 2015 was the purchase of a £344m portfolio of prime first charge residential mortgages, further strengthening the Group's interest income.

As of 31 December 2015 total deposits were £5,108m, up from £2,867m at the start of the year, representing year-on-year growth of 78%. The increase in deposits from customers over this period was primarily due to the continued expansion of the store network and increase in brand awareness, the expansion and deepening of commercial customer relationships, and a continued focus on targeting funds from SIPP pension providers and solicitors' funds. Deposits from commercial customers represent 64% of total deposits at 31 December 2015 (2014: 64%). The chart below illustrates the speed at which our deposits have grown:



Comparative store deposit growth (a measure of productivity using deposit numbers from stores that have been operating for more than a full year) is 69%. Net deposit growth per store per month in 2015 of £5.3m represents annualised deposit growth per store of £63.6m.



Total gross loans as of 31 December 2015 were £3,549m, up from £1,596m at 31 December 2014; an increase of £1,953m or 122% year-on-year as illustrated by the chart above. The increase in Metro Bank's loans and advances to customers over this period was primarily driven by the continued expansion of the store network and increase in brand awareness; growth in the commercial lending team; continued expansion of Metro Bank's residential mortgage intermediary network as well as the acquisition of a £344m portfolio of prime first charge residential mortgages.

The credit quality of the book remains high, with 92% (2014: 93%) of our lending being secured by collateral and a ratio of impairment provisions to gross loans of 0.20% (2014: 0.19%).

During the year we increased our holding in investment securities to £2,000m (2014: £1,611m), primarily due to the increase in customer deposits. Investment securities are principally retail mortgage backed securities and corporate and other bonds.

Our liabilities predominantly comprise deposits from customers (2015: £5,108m; 2014: £2,867m).

Capital structure

Capital is held by the Bank to protect its depositors, to cover its inherent risks, to provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, the Bank considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks. Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements. The Bank has raised further capital in 2016, via a private placement, and is planning a listing.

The Bank manages capital in accordance with prudential rules issued by the PRA, in line with the EU Capital Requirements Directive. Management produces regular assessments of the current and forecasted level of capital, as well as the results of stress testing, to the Directors and the Risk Oversight Committee. Metro Bank complied with all regulatory capital requirements throughout the year ended 31 December 2015. At 31 December 2015, capital ratios remained robust and well above regulatory requirements. The Common Equity Tier 1 ratio at 31 December 2015 was 13% (31 December 2014: 28%). The simple leverage ratio (capital as %age of total assets) was 7% (31 December 2014: 13%).

Funding

Our loan to deposit ratio was 69% at 31 December 2015 (31 December 2014: 56%). We continue to be self-funded through deposits from our retail and commercial customers and have continued to experience record deposit growth during 2015, with deposits increasing from £2,867m at the end of 2014 to £5,108m at the end of 2015. Our range of products has increased throughout the year, adding increased diversity to our funding mix. Being funded through customer deposits mitigates the risks posed by and costs incurred through the use of wholesale funding.

Principal risks and uncertainties affecting the Bank are set out in the Risk Management report on pages 16 to 20.

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

Vernon W. Hill II

Chairman

8 March 2016

Board of Directors

Vernon W. Hill, II

Non-executive Chairman

Chairman and founder of Metro Bank. Founder and former Chairman and President of Commerce Bank.

Chairman of Pet Plan North America

Stuart Bernau

Former Group Retail Director and board member at Nationwide Building Society.

Former Chairman and CEO of Chelsea Building Society.

Keith Carby

CEO of Caerus Capital Group Limited.

Chairman of Foster Denovo PLC.

Joint founder and former Managing Director of J Rothschild Assurance (now St James's Place PLC).

Roger Farah

Co-CEO of Tory Burch.

Former Executive Vice Chairman of Ralph Lauren Corporation.

Lord Flight

Chairman of Flight and Partners and Director of Investec Asset Management Limited.

Commissioner of the Guernsey Financial Services Commission and a member of the Lords Delegated Powers & Regulatory Reform Committee.

Ben Gunn

Senior Independent Director

Former CEO and Chairman of Friends Provident Life and Pensions Limited.

More recently Senior Independent Director at Aviva UK and Chair of Audit Committee at Avelo.

Gene Lockhart

Former President of the Global Retail Bank at Bank of America.

Former CEO at MasterCard International and Midland Bank.

Senior Advisor at General Atlantic, a global private equity firm based in New York.

Sir Michael Snyder

Senior Partner of Kingston Smith. Former Co-Chair of the Government's Professional and Business Services Council.

Chairman of the Association of Practising Accountants.

An elected member of the City of London Corporation since 1986 and Chairman of Policy and Resources (2003 – 2008) – effectively the leader.

Craig Donaldson

Chief Executive Officer

Mike Brierley

Chief Financial Officer

Principal Board Committees	Membership
Audit Committee	Stuart Bernau (Chairman), Keith Carby, Gene Lockhart
Risk Oversight Committee	Stuart Bernau, Mike Brierley, Craig Donaldson, Ben Gunn, Gene Lockhart (Chairman), Sir Michael Snyder
Nomination & Remuneration Committee	Vernon W. Hill II, Keith Carby, Lord Flight (Chairman), Roger Farah

Mike Brierley and Craig Donaldson were members of the Risk Oversight Committee through the year ending 31 December 2015, but stepped down on 26 January 2016 as part of the preparation for listing.

On 26 January 2016, the Nomination and Remuneration Committee became two separate committees, known as the Nominations Committee and the Remuneration Committee.

Executive Team

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

Aileen Gillan
Chief Risk Officer

Danielle Harmer
Chief People Officer

Aisling Kane
Chief Operations Officer

Iain Kirkpatrick
Managing Director, Regional Banking

Paul Riseborough
Chief Commercial Officer

Mark Stokes
Managing Director, Commercial Banking

Ian Walters
Managing Director, Business Banking

Directors' Report

The directors have pleasure in presenting their Annual Report for the year ended 31 December 2015. As set out more fully in the Summary of significant accounting policies, this Annual Report for the consolidated group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Principal activities

Our principal activities during 2015 were the provision of banking and related services. Metro Bank is a deposit-taking and lending institution with a focus on retail and small and medium size commercial customers, offering consistent fair pricing and excellent customer service. Metro Bank is authorised to accept deposits under the Financial Services & Markets Act 2000, has a Consumer Credit Act licence and is a member of the Financial Services Compensation Scheme.

Strategic report

The Companies Act 2006 requires the Directors to present a Strategic Report containing a fair review of the business of the Bank during the financial year ended 31 December 2015 and a description of the principal risks and uncertainties facing the Bank. The Strategic Report represents a comprehensive analysis of the development and performance of the Bank's business during the financial year and the position of the business at the end of that year, consistent with the size and complexity of the business. The purpose of the Strategic Report is to enable shareholders to assess how the Directors have performed their duty under Section 172 of the Companies Act 2006, namely their duty to promote the success of the Bank. The Strategic Report can be found on pages 8 to 12.

Review of business and future developments

The Bank's business and future plans are reviewed in the Chairman's Statement and the Strategic Report.

Research and development

At Metro Bank we're always looking for ways to make things even more convenient for our customers. We have continued to invest in our systems, procedures, products and services and as a result have capitalised £29.9m of intangible assets.

Dividends

No dividends were declared or paid in the year (2014: £nil).

Political and charitable donations

Metro Bank made donations of £780 (2014: £4,000) to local, youth, health and animal charities and no political donations (2014: £nil) in the twelve months ended 31 December 2015.

Risk management

The Bank seeks to manage all risks that arise from its activities. Details of risk management systems and processes in place in relation to financial reporting, and details of risk management objectives and policies of the Bank are shown in the Risk Management Report on pages 19 to 23. As a result of its normal business activities, the Bank is exposed to a variety of risks. The principal risks and uncertainties facing Metro Bank are shown in the Risk Management Report.

Events after the reporting period

On 26 January 2016 the Remuneration Committee confirmed that a number of senior executives would participate in a variable award contingent on both a successful Private Placement and the successful listing of the Bank (the "Project Revolution Award"). In total awards are not expected to exceed £6 million and will be awarded in cash which will be used to purchase restricted Shares for the relevant individuals. 20% of the shares issued will vest immediately with the remaining shares vesting in equal portions of 16% each on 30 April 2017 and each anniversary after that until 30 April 2021.

On 4 March 2016, Metro Bank issued a further 20,000,000 new shares at £20 per share, further to an Offer for subscription on 16 February 2016, for gross consideration of £400m. This capital raising will become unconditional when the Company's shares are admitted for trading on the London Stock Exchange, which is expected to be on 10 March 2016. The Prospectus in respect of this listing was approved by the UK Listing Authority prior to the signing of these financial statements.

Employee involvement

Employee involvement in the bank is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the bank plays a major role in maintaining its focus on the customer. All employees are eligible to participate in our share option schemes.

Diversity

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

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Directors

The following persons were directors of Metro Bank during the financial year and up to the date of signing the financial statements:

Vernon W. Hill II
Craig Donaldson
Mike Brierley
Stuart Bernau
Keith Carby
Lord Howard Flight
Roger Farah
Ben Gunn
Gene Lockhart
Sir Michael Snyder (appointed 22 September 2015)

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment the Directors have taken account of the capital being raised in anticipation of the public listing. This capital raising will become unconditional when the Company's shares are admitted for trading which is expected to be on 10 March 2016. The Prospectus in respect of this listing was approved by the UK Listing Authority prior to the signing of these financial statements.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual 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 group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 and was signed on its behalf by:

Vernon W. Hill II

Chairman

8 March 2016

Risk Management

Risk management framework

Metro Bank seeks to adopt best practice in corporate governance, risk management and control appropriate to the size and complexity of the business. Given the nature of the activities undertaken by Metro Bank, the principal risks and uncertainties faced by the Bank are:

- credit risk;
- market risk including interest rate risk;
- liquidity risk;
- conduct risk;
- compliance and regulatory risk;
- operational risk;
- financial crime; and
- strategic risk.

The Board has ultimate responsibility for setting the Bank’s strategy, corporate objectives and risk appetite. The strategy and risk appetite take into consideration the interests of Customers, shareholders and other stakeholders. The Board specifically approves the level of risk which the Bank is willing to accept, and ensures there is an adequate framework in place for the reporting and management of those risks. It is responsible for maintaining an appropriate control environment to manage the principal risks, and for ensuring the capital and liquidity resources are adequate to achieve the Bank’s objectives within risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of the Bank’s internal controls to the Audit Committee. The Audit Committee monitors and considers the internal control environment focusing on operational risks, internal and external audits and credit assurance, and is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Risk Oversight Committee assists the Board in providing leadership, direction, and oversight with regard to the Bank’s risk governance and management, and also assists the Board in fostering a culture within the Bank that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and controls are reviewed regularly to reflect changes in market conditions and the bank's activities. Through our training and management standards and procedures, we aim to develop a robust and effective control environment in which all colleagues understand their roles and obligations.

Metro Bank’s Chief Risk Officer (“CRO”) is accountable for leadership of the risk function, which is independent from the Bank’s operational and commercial functions. It is responsible for ensuring that appropriate risk management processes, policies and controls are in place, and that they are sufficiently robust, thereby ensuring that key risks are identified, assessed, monitored and mitigated. Through the Risk function, the CRO is responsible for providing assurance to the Board and Directors that the principal risks are appropriately managed and that the Bank is operating within risk appetite.

The Bank operates a three lines of defence model for risk management, as follows:

- The first line of defence is operational management, who manage risk by maintaining appropriate systems and controls that are operated and effective on a daily basis.
- The second line of defence comprises the risk management function, which provides governance and oversight in respect of all significant risk categories, such as credit risk, compliance and conduct risk, operational risk, market & interest rate risk and liquidity risk.
- The third line of defence is Internal Audit, which provides independent assurance through internal audit reviews, both of which are reported to the Audit Committee.

Effective risk management is core to Metro Bank's approach to doing business.

A description of credit, market, liquidity, conduct, compliance and regulatory, operational, financial crime and strategic risk and how they are managed is set out below.

Credit Risk

Credit risk is the risk of financial loss due to an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed. The Bank has detailed lending policies to ensure credit risk-taking is based on sound credit risk principles, including sector and concentration limits. Credit Risk is overseen by the Chief Risk Officer, Credit Sanctioning Committee, Credit Policy and Appetite Committee and the Risk Oversight Committee.

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

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

The Bank aims to have a well-balanced loan portfolio, through the economic cycle, that weighs risk and reward appropriately in lending decisions. The Bank has detailed lending policies to ensure credit risk-taking is based on sound credit risk principles. Limits are set for each borrower together with large exposure limits consistent with prudential regulatory rules. The Bank is also mindful of and measures concentration risk, loan arrears and bad debts. For quantification of credit risk, Metro Bank uses the Standardised Approach assessed under Basel II, Pillars 1 and 2.

Market Risk

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

The Bank aims to minimise earnings shocks or surprises. The Bank does not undertake proprietary trading activities and only holds high rated investment securities. Management monitors exposures to price risk and movements in investment value on a regular basis.

Liquidity Risk

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

The Bank aims to hold a prudent level of liquidity to cover unexpected outflows such that the Bank would be able to meet its financial commitments for an extended period. 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. The Bank also maintains a balance sheet structure that limits reliance on potentially volatile sources of funding.

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

Conduct Risk

Conduct risk is the risk that our operating model, culture or actions result in unfair outcomes for customers. The effective management of risks impacting our customers is a priority for the Bank. The Bank manages conduct risk in a way that is consistent with its overall risk appetite and aligns with its strategy. Conduct risk may arise from any aspect of the way the Bank’s business is conducted and the Bank’s aim is to avoid the conduct of its business resulting in unfair outcomes for its customers.

The Bank has a range of controls in place to mitigate this risk and there are advantages inherent in the combination of our transparent, service-led business model and absence of legacy issues for us to resolve. The simplicity of the Bank’s product range and our culture of delivering unparalleled levels of service and convenience to our Customers help to ensure the consistent delivery of fair Customer outcomes. This has resulted in a low level of reportable complaints, and a low overturn rate at the Financial Ombudsman Service, which are both well below the industry average metrics.

Compliance and Regulatory Risk

Compliance and regulatory risk are the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to adhere to applicable laws, regulations and supervisory guidance.

The Board is focused on responding effectively and in a timely manner to changes in the regulatory environment to ensure compliance with regulatory requirements is maintained. The Bank has allocated resource to ensure continued regulatory compliance and the Directors consider the Bank will be compliant with any new requirements.

Operational Risk

Operating risk is the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events.

The Bank aims to maintain robust operational systems and controls and this is assisted through each business line maintaining a risk database, containing key risks, controls and risk exposures. Each risk exposure is assessed to determine the appropriate controls to be applied. In addition, we maintain a robust testing environment in both the first and second lines of defence, to enable us to test and assess the control effectiveness and adequacy, together with an assurance model to provide independent confirmation of key control adherence.

Financial Crime

Financial crime is the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime (which we define to include internal or external fraud, money laundering, terrorist financing, bribery and corruption and sanctions compliance).

The Bank is required to have in place effective procedures, systems and controls to detect and prevent financial crime. The Bank is committed to complying with its legal and regulatory responsibilities in relation to financial crime, and has no appetite for non-compliance. The Bank has adopted a robust framework: it conducts due diligence of its customers, relationships and payments ensuring there are tailored, risk-based systems and controls in place to manage potential risks.

Internal and external intelligence on emerging threats and trends are considered in order to inform the risk-based approach and to ensure that the Bank's policies, systems and controls are reviewed in light of any emerging issues or regulatory changes.

Strategic Risk

Strategic risk is the risk that Metro Bank fails to achieve short and long term business objectives because of a failure develop the products, capabilities, and competitive position necessary to attract consumers, compete with competitors and withstand market volatility. The result is a failure to deliver returns expected by stakeholders (customers, employees, shareholders, investors, communities, and regulators).

Emerging Risks and Mitigations

Metro Bank has identified a number of risks that have the potential to impact the activities of the Bank and they include:

Cyber security: Cyber-crime continues to pose a significant threat to the financial services industry as a whole and as such, we have invested in technology to strengthen our defences in this area. We continue to partner with industry-leading experts to ensure that our risk management approach is robust and proportionate, and evolving in line with the threats that develop. Metro Bank is a member of several industry forums that share threat intelligence, which enables us to keep abreast of external developments that carry the potential to affect our cyber security. Our Information Security Officer gathers all such intelligence and assesses our exposure, leading to preventative measures being implemented.

Compliance and Competition Regulation: there is likely to continue to be increased use of market studies as a regulatory tool, following on from the cash savings and credit card market studies. The Bank's key risk mitigation in this respect is to continue to place the Customer at the centre of our operations.

Key areas of regulatory focus that will start to affect the Bank in 2016 include EU-led changes such as the Payment Accounts Directive, the Payment Services Directive, the Mortgage Credit Directive and the Capital Requirements Directive IV. In addition, domestic initiatives such as the Senior Managers and Certification Regimes, and increased focus on vulnerable customers and pre-arrears activity will be embedded within the year. There remains increased focus on competition, with the FCA and

Competition & Markets Authority having commenced a number of market studies, including into the cash savings and credit card markets, and further studies are likely to be announced as the year progresses. Digital channels, cyber risk and systems infrastructure and resilience are also likely to remain high on the regulatory agenda, as will changes to the macroeconomic environment.

Changes to data protection legislation: these will result in increasing regulatory scrutiny on the Bank's activities. A full gap analysis will be completed to assess the impacts and appropriate action will be taken to address any gaps identified.

Data integrity and systems infrastructure: following recent systems infrastructure failings (both within and outside the banking industry), we will need to continue to invest to ensure we meet all applicable and new standards.

Digital: internet and mobile technologies are changing the way we interface with our customers. The evolution of these technologies will require us to assess these services in respect of our conduct approach.

Changes in accounting standards: the new reporting requirements under IFRS 9 introduce new credit loss models. An impact assessment is currently underway.

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

Vernon W. Hill II

Chairman

8 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion:

- Metro Bank PLC's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2015 and of the group's loss and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the consolidated and company balance sheets as at 31 December 2015;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the group's and the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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

Hemione Hudson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 March 2016

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000 (restated)*
Interest income	3	125,199	74,049
Interest expense	4	(36,326)	(20,621)
Net Interest Income		**88,873**	**53,428**
Fee and commission income	5	15,713	12,055
Net gains on sale of investment securities	6	6,377	5,122
Other income	7	9,237	4,842
		120,200	**75,447**
Operating expenses	8	(141,563)	(107,940)
Depreciation and amortisation	16,17	(18,195)	(14,221)
Fees associated with listing		(1,465)	-
Impairment of property, plant & equipment and intangible assets	16,17	(8,744)	-
Total operating expenses		**(169,967)**	**(122,161)**
Credit impairment charges	14	(7,030)	(2,157)
Loss before tax		**(56,797)**	**(48,871)**
Taxation	13	7,600	7,759
Loss for the year		**(49,197)**	**(41,112)**
Other comprehensive income for the year			
Items which will be reclassified subsequently to profit or loss where specific conditions are met:			
Available for sale investments (net of tax):			
- fair value (losses)/gains		(1,327)	8,328
- fair value gains transferred to the income statement on disposal		(6,377)	(5,122)
Total other comprehensive (expense)/income		**(7,704)**	**3,206**
Total comprehensive loss for the year		**(56,901)**	**(37,906)**

*See note 36 for details of prior period adjustments.

Consolidated balance sheet

As at 31 December 2015

	Notes	31 December 2015 £'000	31 December 2014 £'000 (restated)*	31 December 2013 £'000 (restated)*
Assets				
Cash and balances with the Bank of England		217,900	180,630	238,979
Loans and advances to banks	14	64,248	35,040	24,205
Loans and advances to customers	14	3,542,548	1,590,346	751,058
Available for sale Investment securities	15	363,807	1,304,410	696,434
Held to maturity investment securities	15	1,635,985	307,041	-
Property, plant and equipment	16	165,257	132,195	103,286
Intangible assets	17	54,243	34,669	23,830
Prepayments and accrued income	19	30,456	18,883	8,553
Deferred tax asset	13	53,053	43,645	35,885
Other assets	20	20,525	13,661	7,263
Total assets		**6,148,022**	**3,660,520**	**1,889,493**
Liabilities				
Deposits from customers	31	5,107,656	2,866,631	1,315,389
Repurchase agreements		561,778	282,544	143,816
Other liabilities	21	71,413	48,944	29,720
Total liabilities		**5,740,847**	**3,198,119**	**1,488,925**
Equity				
Called up share capital	22	-	-	-
Share premium account	22	629,304	629,304	530,463
Retained earnings	24	(213,440)	(164,243)	(123,131)
Other reserves		(8,689)	(2,660)	(6,764)
Total equity		**407,175**	**462,401**	**400,568**
Total equity and liabilities		**6,148,022**	**3,660,520**	**1,889,493**

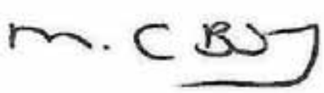
The accounting policies, notes and information on pages 34 to 82 form part of the financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 8 March 2016 and were signed on its behalf by:

Vernon W. Hill II
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer



*See note 36 for details of prior period adjustments.

Consolidated cash flow statement

For the year ended 31 December 2015

	Notes	Year ended 31 December 2015 £'000	Year ended 31 December 2014 £'000 (restated)*
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(56,797)**	(48,871)
Adjustments for:			
Impairment of property, plant and equipment and intangible assets		**8,744**	-
Depreciation and amortisation of intangible and tangible assets	16,17	**18,195**	14,221
Share option reserve	9	**1,675**	898
Gain on sale of securities and fair value gains on derivatives		**(6,374)**	(5,138)
Accrued interest on and amortisation of investment securities		**8,510**	(4,090)
Changes in operating assets		**(1,970,639)**	(856,019)
Changes in operating liabilities		**2,542,722**	1,709,210
Net cash inflows from operating activities		**546,036**	**810,211**
Cash flows from investing activities			
Sales of investment securities		**910,546**	473,814
Purchase of investment securities		**(1,310,529)**	(1,376,411)
Purchase of property, plant and equipment	16	**(49,668)**	(41,035)
Purchase of intangible assets	17	**(29,907)**	(12,934)
Net cash outflows from investing activities		**(479,558)**	**(956,566)**
Cash flows from financing activities			
Share issues	22	**-**	100,000
Cost of share issues		**-**	(1,159)
Net cash inflows from financing activities		**-**	**98,841**
Net increase /(decrease) in cash and cash equivalents		**66,478**	(47,514)
Cash and cash equivalents at start of year		**215,670**	263,184
Cash and cash equivalents at end of year		**282,148**	**215,670**
Loss before tax includes:			
Interest received		**121,316**	67,538
Interest paid		**(31,058)**	(18,213)
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		217,900	180,630
Loans and advances to banks	14	64,248	35,040
		282,148	**215,670**

*See note 36 for details of prior period adjustments.

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Available for sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance at 1 January 2015 (restated)*	-	629,304	(164,243)	(4,314)	1,654	462,401
Net loss for the year	-	-	(49,197)	-	-	(49,197)
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	(7,704)	-	(7,704)
Total comprehensive income	-	-	(49,197)	(7,704)	-	(56,901)
Share issue	-	-	-	-	-	-
Share options at fair value	-	-	-	-	1,675	1,675
Balance as at 31 December 2015	**-**	**629,304**	**(213,440)**	**(12,018)**	**3,329**	**407,175**
Balance at 1 January 2014 (restated)*	-	530,463	(123,131)	(7,520)	756	400,568
Net loss for the year	-	-	(41,112)	-	-	(41,112)
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	3,206	-	3,206
Total comprehensive income	-	-	(41,112)	3,206	-	(37,906)
Share issue	-	98,841	-	-	-	98,841
Share options at fair value	-	-	-	-	898	898
Balance as at 31 December 2014 (restated)*	**-**	**629,304**	**(164,243)**	**(4,314)**	**1,654**	**462,401**
Notes	**22**	**22**	**24**			

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

*See note 36 for details of prior period adjustments.

Company balance sheet

As at 31 December 2015

	Notes	**Company 31 December 2015 £'000**	Company 31 December 2014 £'000 (restated)*	Company 31 December 2013 £'000 (restated)*
Assets				
Cash and balances with the Bank of England		**217,900**	180,630	238,979
Loans and advances to banks	14	**66,815**	34,400	24,157
Loans and advances to customers	14	**3,423,109**	1,514,838	702,665
Available for sale Investment securities	15	**363,807**	1,304,410	696,434
Held to maturity Investment securities	15	**1,635,985**	307,041	-
Property, plant and equipment		**165,224**	132,165	103,228
Investment in subsidiaries		**15,000**	15,000	15,000
Intangible assets	17	**49,648**	30,014	19,115
Prepayments and accrued income	19	**28,646**	18,060	8,239
Deferred tax asset		**53,073**	43,907	35,673
Other assets	20	**117,456**	71,712	44,528
Total assets		**6,136,663**	3,652,177	1,888,018
Liabilities				
Deposits from customers		**5,107,131**	2,866,792	1,315,389
Repurchase agreements		**561,778**	282,544	143,815
Other liabilities	21	**63,733**	42,344	28,944
Total liabilities		**5,732,642**	3,191,680	1,488,148
Equity				
Called up share capital	22	**-**	-	-
Share premium	22	**629,304**	629,304	530,463
Retained earnings	24	**(216,594)**	(166,147)	(123,829)
Other reserves		**(8,689)**	(2,660)	(6,764)
Total equity		**404,021**	460,497	399,870
Total equity and liabilities		**6,136,663**	3,652,177	1,888,018

The financial statements on pages 34 to 82 were approved by the Board of Directors on 8 March 2016 and signed on its behalf by

Vernon W. Hill II
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

*See note 36 for details of prior period adjustments.

Company cash flow statement

For the year ended 31 December 2015

	Notes	**Year ended 31 December 2015 £'000**	Year ended 31 December 2014 £'000 (restated)*
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(58,079)**	(50,414)
Adjustments for:			
Impairment of property, plant and equipment and intangible assets		**8,744**	-
Depreciation and amortisation of intangible and tangible assets		**18,103**	14,121
Share option reserve		**1,675**	898
Gain on sale of securities and fair value gains on derivatives		**(6,374)**	(5,139)
Accrued interest on and amortisation of investment securities		**8,511**	(4,090)
Changes in operating assets		**(1,964,333)**	(849,320)
Changes in operating liabilities		**2,540,961**	1,703,532
Net cash flows from operating activities		**549,207**	809,588
Cash flows from investing activities			
Sales of investment securities		**910,546**	473,814
Purchase of investment securities		**(1,310,529)**	(1,376,410)
Purchase of property, plant and equipment		**(49,632)**	(41,005)
Purchase of intangible assets	17	**(29,907)**	(12,934)
Net cash flows from investing activities		**(479,522)**	(956,535)
Cash flows from financing activities			
Share issues	22	**-**	100,000
Cost of share issues		**-**	(1,159)
Net cash flows from financing activities		**-**	98,841
Net (decrease)/increase in cash and cash equivalents		**69,685**	(48,106)
Cash and cash equivalents at start of year		**215,030**	263,136
Cash and cash equivalents at end of year		**284,715**	215,030
Loss before tax includes:			
Interest received		**113,034**	60,877
Interest paid		**(31,058)**	(18,213)
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		**217,900**	180,630
Loans and advances to banks	14	**66,815**	34,400
		284,715	215,030

*See note 36 for details of prior period adjustments.

Company statement of changes in equity

For the year ended 31 December 2015

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Available for sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance at 1 January 2015 (restated)*	**-**	**629,304**	**(166,147)**	**(4,314)**	**1,654**	**460,497**
Net loss for the year	**-**	**-**	**(50,447)**	**-**	**-**	**(50,447)**
Other comprehensive income, net of tax, relating to available for sale investments	**-**	**-**	**-**	**(7,704)**	**-**	**(7,704)**
Total comprehensive income	**-**	**-**	**(50,447)**	**(7,704)**	**-**	**(58,151)**
Share issue	**-**	**-**	**-**	**-**	**-**	**-**
Share options at fair value	**-**	**-**	**-**	**-**	**1,675**	**1,675**
Balance as at 31 December 2015	**-**	**629,304**	**(216,594)**	**(12,018)**	**3,329**	**404,021**
Balance at 1 January 2014 (restated)*	**-**	**530,463**	**(123,829)**	**(7,520)**	**756**	**399,870**
Net loss for the year	-	-	(42,318)	-	-	(42,318)
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	3,206	-	3,206
Total comprehensive income	-	-	(42,318)	3,206	-	(39,112)
Share issue	-	98,841	-	-	-	98,841
Share options at fair value	-	-	-	-	898	898
Balance as at 31 December 2014 (restated)*	**-**	**629,304**	**(166,147)**	**(4,314)**	**1,654**	460,497
Notes	**22**	**22**	**24**			

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

*See note 36 for details of prior period adjustments.

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.

These financial statements were authorised for issue on 8 March 2016 by the Board of Directors.

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 years presented, unless otherwise stated.

2.1 Basis of preparation

The Group's consolidated financial statements for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

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

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment the Directors have taken account of the capital being raised in anticipation of the public listing. This capital raising will become unconditional when the Company's shares are admitted for trading which is expected to be on 10 March 2016. The Prospectus in respect of this listing was approved by the UK Listing Authority prior to the signing of these financial statements. The consolidated financial statements have been prepared under the historical cost convention, except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

The disclosures on risks from financial instruments are presented in Notes 27-31.

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

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

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

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

2.2 Changes in accounting policy and disclosures

As of the date of authorisation of the financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective and, in some cases, not yet adopted by the European Union:

- IFRS 9 *Financial Instruments*
- IFRS 14 *Regulatory Deferral Accounts*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 11 (amendments) *Accounting for Acquisitions of Interests in Joint Operations*
- IAS 16 and IAS 38 (amendments) *Clarification of Acceptable Methods of Depreciation and Amortisation*
- IAS 27 (amendments) *Equity Method in Separate Financial Statements*
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Annual Improvements to IFRSs 2012-2014 Cycle: Amendments to: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*
- IAS 1 (amendments) *Disclosure Initiative*
- IFRS 10, IFRS 12 and IAS 28 (amendments) *Investment Entities: Applying the Consolidation Exception*
- IFRS 16 *Leases*

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial information of the Group in future periods, except for IFRS 9, which will impact both the measurement and disclosures of financial instruments and IFRS 16, which will impact the lease accounting for the stores.

IFRS 9, 'Financial instruments', brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The key elements of the standard are as follows:

Classification and measurement - IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured: (a) the entity's business model (i.e., how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and (b) the contractual cash flow characteristics of the financial asset (i.e., whether the contractual cash flows are solely payments of principal and interest).

Impairment - the incurred loss model under IAS 39 is replaced with a new expected loss model. Impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. Risk of default and expected credit losses must incorporate forward looking and macroeconomic information. Expected credit loss models will require more data and assumptions with impairment provisions potentially becoming more volatile.

Hedge accounting - the new requirements align hedge accounting more closely with risk management. The revised standard also establishes a more principles-based approach to hedge accounting.

The Group is currently assessing the impact of IFRS 9.

IFRS 16 “Leases” provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. The main aim of this standard is to ensure all leases will be reflected on the balance sheet, irrespective of substance over form. The new standard will replace IAS 17 “Leases” and is effective for annual periods beginning on or after 1 January 2019 unless adopted early. The Group is currently reviewing the impact of IFRS 16.

IFRS 14 Regulatory Deferral Accounts is not applicable to the Group as the Group is not a first-time adopter of IFRSs.

2.3 Consolidation

(a) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

2.4 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 sterling, which is the Group's presentation currency.

(b) Transactions and balances

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

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

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

2.5 Sale and repurchase agreements

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

2.6 Financial assets

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

(a) Loans and receivables

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

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

(b) Held to maturity financial assets

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

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

(c) Available-for-sale financial assets

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

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

(d) Recognition

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

2.7 Financial liabilities

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

2.8 Amortised cost measurement and determination of fair value

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

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

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

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

If there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

2.9 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.

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

Collateral furnished by the 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.

2.10 Reclassification of financial assets

The bank may choose to reclassify financial assets that are classified in the available-for-sale category to the held to maturity category 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. 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.

2.11 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.

Interest income and expense

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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 original effective interest rate on the net balance.

2.12 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, for example income relating to the provision of safety deposit boxes, account servicing fees, transaction fees, is recognised as revenue when the services are provided; and

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

- Impairment of individual loans is designed to recognise specific risks identified by the bank following the occurrence of a loss event; for example, a commercial customer whose business has gone into administration. If loans are considered to be at risk, an individual assessment will be performed.

- For loans that are not considered to be individually impaired (whether individually significant or not), a collective impairment assessment is performed. Collective provisions are intended to reflect the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. The lending exposure subject to collective impairment is assessed for each group of loans with similar credit risk characteristics.

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

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

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

(b) Assets classified as available for sale

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

2.14 Share-based payments

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

The fair value of 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.

2.15 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.

2.16 Leases

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

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

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

2.17 Property, plant and equipment

Property, plant and equipment comprises tangible assets which are held for use in the production or supply of goods or services and are expected to be used for more than one year.

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*
Land	*0%*
Fixtures and fittings and equipment	*20%*
Computer	*20% - 33%*

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.

Property, plant and equipment are assessed on an annual basis for impairment indicators. If impairment indicators are identified, these assets are subject to an impairment review, whereby the carrying value of the assets is compared with their recoverable amounts, which are defined as the higher of the fair value less costs to sell and their value in use. Where impairments are indicated, the carrying values of assets are written down by the amount of the impairment and the charge is recognised in profit or loss in the period in which it occurs. A previously recognised impairment charge on a fixed asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the asset will only be increased to the carrying value at which it would have been held had the impairment not been recognised.

When performing an impairment test, consideration is given to the recoverable amount of individual assets, unless the asset does not generate cash inflows that are largely independent of other assets or groups of assets. Where it does not generate such independent cash inflows, the recoverable amount should be determined for the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows of other assets or groups of assets.

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

2.18 Intangible assets

Intangible assets are identifiable assets controlled by Metro Bank from which the Bank expects to derive future economic benefits and which have no physical substance.

Computer software: Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate future economic benefits;
- adequate technical, financial and other resources to complete the development and to use of sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development colleague costs.

Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Intangible assets acquired as part of a business combination: Identifiable intangible assets acquired as part of a business combination are recognised as long as their fair value can be reliably measured.

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

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

The bank uses the following annual rates in calculating amortisation:

Core banking software used for recording banking transactions	5%
Other significant banking software	10%
Other banking software	20%
Software licences	Licence period
Customer Contracts	10%

2.19 Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units (CGU), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. The CGU is defined in note 17.

Impairment testing is performed at least annually, and whenever there is an indication that the CGU may be impaired, by comparing the recoverable amount of a CGU with its carrying amount. The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows. If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.20 Income tax

(a) Current income tax

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

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

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on Research & Development expenditure.

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

2.21 Colleague benefits

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

2.22 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.

2.23 Critical Accounting Estimates

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

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

(a) Deferred tax

The largest element of the deferred tax asset represents the future tax impact of carried forward tax losses which will reduce the payment of future tax. This element of the deferred tax asset requires management judgement in assessing its recoverability. At 31 December 2015, the Group recognised a deferred tax asset (net) of £53.1 million (2014 restated*: £43.6 million) in respect of tax losses carried forward and taxable temporary timing differences. The increase reflects in main the taxable losses generated by the continued significant investment by the bank in building stores, infrastructure and systems to enable future growth and scale to be achieved.

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

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

(b) Impairment losses on loans and advances

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

- the loss given default differs by +/- 10%, for example if the loss given default is 10% then it is increased to 11%, the impairment allowance would be an estimated £0.4 million higher or lower respectively; and

- the level of house prices differs by +/- 10%, for example a property value of £100,000 is increased to £110,000, the impairment allowance would be an estimated £2.3 million lower or £6.7 million higher respectively.

(c) Impairment of non-financial assets

Non-financial assets (property, plant and equipment and intangible assets) are assessed for indications of impairment at each balance sheet date, or more frequently where required by events or changes in circumstances. Indications of impairment may include:

- indications that the market value of an asset has declined in the period more significantly than might be expected due to the passage of time;
- changes to the technological, market, economic or legal environment which impact the entity or its markets;
- obsolescence or physical damage;

- plans to discontinue or restructure parts of the business, e.g. a store closure; or
- cash flows for constructing or for maintaining or operating an asset being significantly higher than those budgeted.

If indications of impairment are found, these assets are subject to an impairment review. The impairment review compares the carrying value of the assets with their recoverable amounts, which are defined as the higher of the fair value less costs to sell and their value in use. Fair value less costs to sell is the amount at which the asset could be sold in a binding agreement in an arm's length transaction. Value in use is calculated as the discounted cash flows generated as a result of the asset's continued use including those generated by its ultimate disposal, discounted at a market rate of interest on a pre-tax basis.

Where impairments are indicated, the carrying values of fixed assets are written down by the amount of the impairment and the charge is recognised in profit or loss in the period in which it occurs. A previously recognised impairment charge on a fixed asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the asset will only be increased to the carrying value at which it would have been held had the impairment not been recognised.

Through their assessment of non-financial assets and review for impairment indicators, management have identified assets with impairment and an impairment charge of £8.7 million (2014: £nil) has been recognised.

3. Interest income

	2015	2014
	£'000	£'000
		(restated)*
Investment securities	**28,119**	21,218
Loans and advances to customers	**97,080**	52,831
Total interest Income	**125,199**	74,049

4. Interest expense

	2015	2014
	£'000	£'000
Interest on customer accounts	**27,988**	15,777
Interest on repurchase agreements	**4,809**	2,851
Other	**3,529**	1,993
Total interest expense	**36,326**	20,621

5. Fee and commission income

	2015	2014
	£'000	£'000
		(restated)*
Service charges and other fee income	**9,072**	8,024
Safe deposit box income	**5,257**	3,167
ATM and interchange fees	**1,384**	864
Total fee and commission income	**15,713**	12,055

6. Net gains on sale of investment securities

	2015 £'000	2014 £'000
Net gains on sale of investment securities	**6,377**	5,122
	6,377	5,122

7. Other income

	2015 £'000	2014 £'000
Gain on foreign currency transactions	**6,846**	3,832
Other	**2,391**	1,010
Total other income	**9,237**	4,842

8. Operating expenses

	2015 £'000	2014 £'000 (restated)*
Staff costs	**74,418**	55,000
Occupancy expense	**22,577**	16,259
Information technology costs	**10,922**	11,019
Marketing costs	**3,467**	3,468
Legal, regulatory and professional fees	**4,502**	3,834
Other expenses	**25,677**	18,360
Total operating expenses	**141,563**	107,940

9. Staff costs

	2015 £'000	2014 £'000
Wages and salaries	**62,375**	46,588
Social security costs	**6,611**	4,997
Other pension costs	**3,757**	2,517
Equity settled share based payments	**1,675**	898
	74,418	55,000

The average number of persons employed by the bank during the year was 1,821 (2014: 1,323).

	2015	2014
Customer facing	**1,200**	917
Non-customer facing	**621**	406
Total	**1,821**	1,323

10. Directors' emoluments

The remuneration of the Directors of the company was:

	2015 £'000	2014 £'000
Emoluments (including benefits in kind)	**1,554**	1,387
Share based payment cost	**617**	292
Contributions to individual personal pension plans	**29**	64
	2,200	1,743

During the year the bank made contributions to individual personal pension plans in respect of 1 director (2014: 2 directors).

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

	2015 £'000	2014 £'000
Aggregate emoluments	**544**	415
Share based payment cost	**286**	152
Contributions to individual personal pension plan	**29**	41
	859	608

11. Pension costs and commitments

The bank operates a defined contribution arrangement for employees. Metro Bank made payments amounting to £4.1 million (31 December 2014: £2.8 million) to employees' individual personal pension plans during the year.

12. Loss on ordinary activities before taxation

This is arrived at after charging / (crediting):

	2015 £'000	2014 £'000
Operating lease rental expense	**15,108**	11,420
Exchange differences	**(8)**	379
Fees payable by Metro Bank to PricewaterhouseCoopers LLP		
For Metro Bank's statutory audit	**720**	372
For the audit of Metro Bank's subsidiaries	**36**	60
For the reporting accountant services provided in association with the listing	**702**	-
For tax compliance services	**56**	91
For tax advisory services	**14**	61

13. Taxation

	2015 £'000	2014 £'000 (restated)*
Current tax:		
UK corporation tax	**-**	-
Adjustment in respect of prior years	**-**	-
Total current tax	**-**	-
Deferred tax:		
Current year	**7,600**	7,759
Adjustment in respect of prior years	**-**	-
Total deferred taxation	**7,600**	7,759
Total taxation	**7,600**	7,759

Total tax paid in relation to income during the year was £nil (31 December 2014: £nil). The tax credit on the Group's loss before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to the losses of the consolidated entities as follows:

	2015 £'000	2014 £'000 (restated)*
Loss before tax	**(56,797)**	(48,871)
Loss on ordinary activities multiplied by standard rate in the UK	**11,359**	9,774
Tax effects of:		
Expenses not deductible for tax purposes – listing fees	**(296)**	-
Expenses not deductible for tax purposes – other	**(453)**	(2,015)
Re-adjustment of deferred tax - change in the UK tax rate	**(3,010)**	-
Tax credit	**7,600**	7,759

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future of the underlying timing differences can be deducted. The entirety of the deferred tax asset recognised by Metro Bank is expected to be recovered after more than 12 months. There is no time limit on the recovery of the deferred tax asset.

Further information on the details of the judgements taken around deferred tax are discussed in note 2.23.

Analysis of deferred tax assets and deferred tax liabilities is as follows:

	31 December 2015 £'000	31 December 2014 £'000 (restated)*
Deferred tax assets to be recovered after more than 12 months:	**57,662**	46,787
Deferred tax liabilities to be recovered after more than 12 months:	**(4,609)**	(3,142)
Deferred tax assets (net)	**53,053**	43,645

13. Taxation (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

2015	Unused tax losses £'000	Share options £'000	Property, plant & equipment £'000	Intangible assets £'000
Deferred tax assets	56,163	1,499	-	-
Deferred tax liabilities	-	-	(1,861)	(2,748)
At 1 January	46,611	176	(1,001)	(2,141)
Income statement	7,747	1,323	(860)	(607)
Other comprehensive income	1,805	-	-	-
At 31 December	56,163	1,499	(1,861)	(2,748)

2014 (restated)*	Unused tax losses £'000	Share options £'000	Property, plant & equipment £'000	Intangible assets £'000
Deferred tax assets	46,611	176	-	-
Deferred tax liabilities	-	-	(1,001)	(2,141)
At 1 January	36,834	166	69	(1,184)
Income statement	9,777	10	(1,071)	(957)
At 31 December	46,611	176	(1,001)	(2,141)

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

14. Loans and advances to customers and banks

Total loans and advances to customers

	Group 31-Dec-15 £'000	Group 31-Dec-14 £'000	**Company 31-Dec-15 £'000**	Company 31-Dec-14 £'000
Gross Loans and advances to customers	**3,549,331**	1,595,785	**3,426,689**	1,518,136
Less: allowance for impairment	**(6,783)**	(5,439)	**(3,580)**	(3,298)
Net Loans and advances to customers	**3,542,548**	1,590,346	**3,423,109**	1,514,838
Amounts include:				
Repayable on demand or at short notice	**38,385**	97,264	**38,385**	50,277

14. Loans and advances to customers and banks (continued)

Loans and advances to customers by category

	Group 31 December 2015 £'000	Group 31 December 2014 £'000	**Company 31 December 2015 £'000**	Company 31 December 2014 £'000
Individual (retail customers):				
- Overdraft	**49,701**	26,812	**49,701**	26,812
- Credit Cards	**5,976**	5,859	**5,976**	5,859
- Term Loans	**63,793**	23,338	**63,793**	23,338
- Mortgages	**2,156,419**	825,135	**2,156,419**	825,135
Corporate:				
- Overdraft	**24,566**	15,017	**24,568**	16,850
- Credit Cards	**887**	671	**887**	671
- Term Loans	**1,111,239**	619,471	**1,111,239**	619,471
- Asset and Invoice Finance	**122,644**	79,482	**-**	-
- Senior Secured Lending	**14,106**	-	**14,106**	-
Total loans to customers	**3,549,331**	1,595,785	**3,426,689**	1,518,136

Credit quality of loans and advances to customers and banks

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

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

14. Loans and advances to customers and banks (continued)

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

	Group 2014		Company 2014	
	Loans and advances to customers £'000	Loans and advance to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired	1,537,128	35,040	1,463,561	34,400
Past due but not impaired	54,897	-	52,955	-
Individually impaired	3,760	-	1,620	-
Total	1,595,785	35,040	1,518,136	34,400
Less: allowance for impairment	(5,439)	-	(3,298)	-
Total	1,590,346	35,040	1,514,838	34,400
Individually impaired	(2,821)	-	(680)	-
Collectively impaired**	(2,618)	-	(2,618)	-
Total	(5,439)	-	(3,298)	-

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

14. Loans and advances to customers and banks (continued)

Movement in allowances for impairment

	Group 2015 £'000	Group 2014 £'000	**Company 2015 £'000**	Company 2014 £'000
Allowance for impairment at 1 January	**(5,439)**	(3,282)	**(3,298)**	(1,391)
Acquisition of Subsidiary	**-**	-	-	-
Write offs	**5,686**	-	**5,333**	-
Reversal of impairment	**-**	15	**-**	15
Increase in impairment allowance	**(7,030)**	(2,172)	**(5,615)**	(1,922)
Allowance for impairment at 31 December	**(6,783)**	(5,439)	**(3,580)**	(3,298)

Further information about the credit quality of our loans is included in Note 28.

Past due but not impaired

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

31 December 2015	**Group**			
	Mortgages £'000	**Corporate £'000**	**Other £'000**	**Total £'000**
Past due <30 days	**24,128**	**30,534**	**1,762**	**56,424**
Past due 31-60 days	**1,223**	**425**	**427**	**2,075**
Past due 61-90 days	**745**	**189**	**265**	**1,199**
Over 90 days	**-**	**335**	**-**	**335**
Total	**26,096**	**31,483**	**2,454**	**60,033**

31 December 2015	**Company**			
	Mortgages £'000	**Corporate £'000**	**Other £'000**	**Total £'000**
Past due <30 days	**24,128**	**30,534**	**1,762**	**56,424**
Past due 31-60 days	**1,223**	**73**	**427**	**1,723**
Past due 61-90 days	**745**	**189**	**264**	**1,198**
Over 90 days	**-**	**-**	**-**	**-**
Total	**26,096**	**30,796**	**2,453**	**59,345**

14. Loans and advances to customers and banks (continued)

31 December 2014	Group			Company		
	Mortgages £'000	Corporate £'000	Total £'000	Mortgages £'000	Corporate £'000	Total £'000
Past due <30 days	8,010	38,402	46,412	8,010	38,402	46,412
Past due 31-60 days	-	1,500	1,500	-	1,500	1,500
Past due 61-90 days	-	1,744	1,744	-	1,744	1,744
Over 90 days	-	5,241	5,241	-	3,299	3,299
Total	8,010	46,887	54,897	8,010	44,945	52,955

15. Investment securities

	Level 1 £'000	**Level 2 £'000**	**Total £'000**
Investment securities held at fair value (recurring fair value measurement)			
As at 31 December 2015			
Financial investments: available for sale	**189,309**	**174,498**	**363,807**
As at 31 December 2014			
Financial investments: available for sale	241,127	1,063,283	1,304,410

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 (as prices) or indirectly (derived from prices).

15. Investment securities (continued)

Reclassifications between categories

On 15 June 2015, £732.2 million of financial assets classified as available for sale were reclassified as held to maturity following the end of a prior tainting period. The carrying amount (including accrued interest) and fair value of the assets at 1 January 2015, 15 June 2015 and 31 December 2015 were as follows:

	Carrying amount £'000	Fair value £'000
At 1 January 2015	**649,421**	**649,421**
At 15 June 2015	**732,234**	**732,234**
At 31 December 2015	**653,992**	**660,542**

A fair value gain of £82.8 million was recognised in other comprehensive income with respect to the reclassified assets up to the point of reclassification; had these assets not been reclassified, a fair value loss of £71.7 million would have been recognised in other comprehensive income from the point of reclassification to the end of the year. The effective interest rates on available for sale assets reclassified to held to maturity at 1 January 2015 and 31 December 2015 ranged from 0.75% to 2.00% with all cash flows expected to be recoverable.

On 1 January 2014, £215.6 million of financial assets classified as available for sale were reclassified as held to maturity following the end of a prior tainting period. The carrying amount (including accrued interest) and fair value of the assets at 1 January 2014 and 31 December 2014 were as follows:

	Carrying amount £'000	Fair value £'000
At 1 January 2014	215,580	215,580
At 31 December 2014	213,899	217,331

No fair value gain or loss was recognised with respect to the reclassified assets in 2014; had these assets not been reclassified, a fair value gain of £1.8 million would have been recognised in other comprehensive income. The effective interest rates on available for sale assets reclassified to held to maturity at 1 January 2014 and 31 December 2014 ranged from 0.68% to 1.89%, with all cash flows expected to be recoverable.

As at 31 December 2015 and 31 December 2014 financial investments classified as held to maturity were as follows:

	Carrying amount £'000	Fair value £'000
At 31 December 2015	**1,635,985**	**1,629,527**
At 31 December 2014	307,041	313,851

16. Property, plant and equipment

	Leasehold property £'000	Land** £'000	Fixtures fittings and equipment £'000	Computers £'000	Total £'000
Cost or valuation					
1 January 2015 (restated)*	119,026	8,273	12,580	22,832	162,711
Additions	38,503	-	4,844	6,321	49,668
Impairment	(1,291)	-	(24)	(1,714)	(3,029)
31 December 2015	**156,238**	**8,273**	**17,400**	**27,439**	**209,350**
Accumulated depreciation					
1 January 2015 (restated)*	11,197	-	5,069	14,250	30,516
Impairment	(109)	-	(4)	(1,223)	(1,336)
Charge for the year	6,022	-	2,855	6,036	14,913
31 December 2015	**17,110**	**-**	**7,920**	**19,063**	**44,093**
Net book value	**139,128**	**8,273**	**9,480**	**8,376**	**165,257**
Cost or valuation					
1 January 2014 (restated)*	84,500	8,273	11,037	17,866	121,676
Additions (restated)*	34,526	-	1,543	4,966	41,035
31 December 2014 (restated)*	119,026	8,273	12,580	22,832	162,711
Accumulated depreciation					
1 January 2014 (restated)*	6,677	-	3,073	8,640	18,390
Charge for the year (restated)*	4,520	-	1,996	5,610	12,126
31 December 2014 (restated)*	11,197	-	5,069	14,250	30,516
Net book value	107,829	8,273	7,511	8,582	132,195

**Land is held under a 999 year lease with no further lease payments due. The building associated with the land is included within the leasehold property category.

As we continue to grow and invest in our customer offering and store network, we have performed a review of our property, plant & equipment. This has resulted in a write off of assets worth £1.7 million, relating to assets which are currently being withdrawn and enhanced.

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

17. Intangible assets

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

Group	Goodwill	Customer contracts	Software	Total
2014				
Cost or valuation	**£'000**	**£'000**	**£'000**	**£'000**
1 January 2014	4,140	600	22,385	27,125
Additions	-	-	12,934	12,934
31 December 2014	**4,140**	**600**	**35,319**	**40,059**
Accumulated amortisation				
1 January 2014	-	25	3,270	3,295
Charge for the year	-	60	2,035	2,095
31 December 2014	**-**	**85**	**5,305**	**5,390**
Net book value	**4,140**	**515**	**30,014**	**34,669**

Company	Software	
	2015	**2014**
	£'000	**£'000**
Cost or valuation		
1 January	35,319	22,385
Additions	29,907	12,934
Impairment	(8,481)	-
31 December	**56,745**	**35,319**
Amortisation		
1 January	5,305	3,270
Disposals	(1,430)	-
Charge for the year	3,222	2,035
31 December	**7,097**	**5,305**
Net book value	**49,648**	**30,014**

17. Intangible assets (continued)

Intangible assets are amortised over their useful economic lives. The useful life is reviewed annually to determine whether events and circumstances continue to support the useful life assessment. Any change of estimate is accounted for prospectively with the effect of any change being recognised in the current and future periods.

Metro Bank performs a review of the intangible assets for impairment indicators annually, or more frequently where required by events of changes in circumstances. An impairment test is performed when impairment indicators are identified, or where assets have an indefinite life or are not yet ready for use. Impairment indicators include factors such as planned changes to software used by the business or project taking longer to complete than expected.

The goodwill held in the Group's balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate cash generating unit; of the total balance of £4.1 million (2014: £4.1 million), £4.1 million, or 100 per cent of the total has been allocated to SME Invoice Finance Limited ("SME Invoice Finance").

The recoverable amount of SME Invoice Finance has also been based on a value-in-use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a five-year period and a discount rate of 14.3 per cent. Cash flows beyond the five-year period are extrapolated using a growth rate of 2.3 per cent. The discount rate and growth rate are consistent with external sources of information reviewed by management. Based on these assumptions, the recoverable amount exceeded the carrying amount including goodwill by a significant amount. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of SME Invoice Finance to fall below the balance sheet carrying value.

As we continue to grow and invest in our enhanced digital infrastructure and customer offering, we have performed a review of our intangible assets. This has resulted in a write off of assets worth £7.0m, the majority of which related to assets which are currently being withdrawn and enhanced.

18. Future capital expenditure

At 31 December 2015 there was £12.7 million capital expenditure authorised but not contracted for or contracted but not provided for (31 December 2014: £14.1 million).

19. Prepayments and accrued income

	Group 31 December 2015 £'000	Group 31 December 2014 £'000 (restated)*
Prepayments	**13,636**	7,878
Accrued income	**8,998**	5,295
VAT receivable	**7,144**	5,281
Other assets	**678**	429
Total prepayments and accrued income	**30,456**	18,883

	Company 31 December 2015 £'000	Company 31 December 2014 £'000 (restated)*
Prepayments	**11,844**	7,078
Accrued income	**8,980**	5,273
VAT receivable	**7,144**	5,281
Other assets	**678**	428
Total prepayments and accrued income	**28,646**	18,060

20. Other assets

	Group 31 December 2015 £'000	Group 31 December 2014 £'000 (restated)*
Refundable collateral	**8,878**	6,070
Other	**11,647**	7,591
	20,525	13,661
Current portion	**11,715**	7,654
Non-current portion	**8,810**	6,007

	Company 31 December 2015 £'000	Company 31 December 2014 £'000 (restated)*
Refundable collateral	**8,878**	6,070
Other	**11,670**	7,589
Amounts owed by Group undertakings	**96,908**	58,053
	117,456	71,712
Current portion	**12,339**	7,818
Non-current portion	**105,117**	63,894

21. Other liabilities

	Group 31 December 2015 £'000	Group 31 December 2014 £'000 (restated)*
Trade creditors	**1,792**	1,895
Other taxation and social security costs	**6,592**	5,566
Accruals and deferred income	**45,412**	27,343
Other liabilities	**17,617**	14,140
	71,413	48,944
Current portion	**62,977**	43,423
Non-current portion	**8,436**	5,521

	Company 31 December 2015 £'000	Company 31 December 2014 £'000 (restated)*
Trade creditors	**1,589**	1,643
Other taxation and social security costs	**6,462**	5,368
Accruals and deferred income	**45,112**	26,696
Other liabilities	**10,570**	8,637
	63,733	42,344
Current portion	**55,297**	36,823
Non-current portion	**8,436**	5,521

22. Called up share capital

A Ordinary shares

As at 31 December 2015 and 31 December 2014, the bank had issued 59.2m A Ordinary Shares of 0.0001 pence.

B Ordinary shares

As at 31 December 2015 and 31 December 2014, the bank had issued 1 million B Ordinary shares of 0.0001 pence to employees and non-executive directors.

B Ordinary Shares are part of the Company's long term incentive arrangements and give certain employees and non-executive Directors the opportunity to share in the value of Metro Bank to the extent that the value of Metro Bank at the time of a Realisation Event (being a Listing, Sale or Takeover Offer) exceeds the Hurdle Price. The Hurdle Price is the initial placing proceeds of £75m raised in March 2010, plus a sum equal to interest on that amount at the rate of 8% per annum (compounded annually) until the date on which a Realisation Event occurs.

22. Called up share capital (continued)

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

	Group and company 31 December 2015 £'000	Group and company 31 December 2014 £'000
Called up ordinary share capital, issued and fully paid		
At beginning of year	-	-
Issued	-	-
At end of year	**-**	-

	31 December 2015 £'000	31 December 2014 £'000
Share premium account		
At beginning of year	**629,304**	530,463
Issued	**-**	98,841
At end of year	**629,304**	629,304

23. Share options

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

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

	2015		**2014**	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
At 1 January	**1,492,000**	**12.3**	**644,000**	**10.9**
Granted	**1,140,000**	**15.5**	**907,000**	**13.4**
Lapsed	**(61,000)**	**13.7**	**(59,000)**	**12.5**
At 31 December	**2,571,000**	**13.7**	**1,492,000**	**12.3**

23. Share options (continued)

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

Expiry	Exercise price	Number	Vesting Period	Vesting Period Ends
07-Oct-21	£9.00	91,000	Three years	07-Oct-14
31-Oct-22	£10.00	204,000	Three years	31-Oct-15
11-Nov-23	£12.00	306,000	Five years	11-Nov-18
21-Mar-24	£13.00	98,000	N/A	N/A
31-Oct-24	£13.50	745,000	`	31-Oct-19
N/A	£14.00	260,000	N/A	N/A
N/A	£16.00	867,000	Five years	04-Nov-20

260,000 share options were granted on 20 March 2015 at a price of £14.00 per share. The fair value of these options is determined by using the Black-Scholes valuation model. The significant inputs into the model were the exercise price of £14.00, volatility of expected share price returns of 24%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 0.40%. The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other high street banks.

867,000 share options were granted on 4 November 2015 at a price of £16.00 per share. The significant inputs into the model were the exercise price of £16.00, volatility of expected share price returns of 25%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 0.86%. The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other high street banks.

98,000 share options were granted on 21 March 2014 at a price of £13.00 per share and expire on 21 March 2024. The fair value of these options is determined by using the Black-Scholes valuation model. The significant inputs into the model were the exercise price of £13.00, volatility of expected share price returns of 36%, option life as disclosed above, a dividend yield of 0% and an annual risk-free interest rate of 1.05% The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other High Street banks.

782,000 share options were granted on 31 October 2014 at a price of £13.50 per share and expire on 31 October 2024. The significant inputs into the model were the exercise price of £13.50, volatility of expected share price returns of 33%, option life as disclosed above, a dividend yield of 0% and an annual risk-free interest rate of 1.12% The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other High Street banks.

The share price is equal to the exercise price in all cases.

The fair value of options granted during the year is determined by using the Black-Scholes valuation model and was £2,257,433 (2014: £2,060,000).

The weighted average life of share options outstanding at 31 December 2015 was 8.1 years (2014: 9.1 years).

24. Reconciliation of movements in retained earnings

	Group 2015 £'000	Group 2014 £'000 (restated)*
At 1 January	**(164,243)**	(123,131)
Loss for the year	**(49,197)**	(41,112)
At 31 December	**(213,440)**	(164,243)

	Company 2015 £'000	Company 2014 £'000 (restated)*
At 1 January	**(166,147)**	(123,829)
Loss for the year	**(50,447)**	(42,318)
At 31 December	**(216,594)**	(166,147)

25. Financial commitments

At 31 December 2015, Metro Bank had irrevocable undrawn loan facilities granted to retail and commercial customers of £332.5m (2014: £147.8m).

In addition the bank has, as part of its retail and commercial operations, commitments of £96.0m (2014: £101.4m) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the bank, subject to notice requirements and given their nature are not expected to be drawn down to the full level of exposure.

26. Leasing commitments

The Bank leases various offices and stores under non-cancellable operating lease arrangements. The leases have various terms, escalation, renewal and rights. At the balance sheet date, future minimum payments under operating leases relating to land and buildings were as follows:

	2015 £'000	2014 £'000
Amounts falling due:		
Within one year	**16,304**	12,811
Between one and five years	**60,828**	50,867
After five years	**249,763**	216,306
	326,895	279,984

27. Financial instruments

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

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

28. Credit risk

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

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

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

For details about our loans and advances to customers and the allowance for impairment held by the Bank against those assets, please refer to note 14.

The bank invests in high quality liquid debt instruments as required by the bank’s Treasury Instruments and Dealing Policy. The analysis below details the credit rating of the securities as at 31 December 2015 and 31 December 2014. No allowance for impairment or loss was held against any of these assets at 31 December 2015 or 31 December 2014.

Credit Rating	**31 December 2015 £’000**	31 December 2014 £’000
AAA	**1,312,838**	1,036,477
AA- to AA+	**319,524**	273,235
A- to A+	**156,409**	143,847
Lower than A-	**211,021**	157,892
Total	**1,999,792**	1,611,451

The bank has pledged £1,023.0 million (2014: £574.6 million) of AA/AAA rated securities as encumbered collateral which can be called upon in the event of default. £540.0 million of assets (2014: £551.1 million) are pledged to the Bank of England through the banks participation in the Funding for Lending Scheme (“FLS”) to support the £465.4 million Treasury bills it has drawn down from the scheme. The remaining £483.0 million are pledged with market participants in the form of repo.

28. Credit risk (continued)

Collateral held and other credit enhancements, and their financial effect

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

At 31 December 2015	**Maximum Exposure £'000**	**Collateral £'000**	**Net exposure £'000**
Loans and advances to banks	**64,248**	**-**	**64,248**
Loans and advances to customers:			
- Loans to individuals (note 14)	**2,275,889**	**(2,221,469)**	**54,420**
- Loans to corporate entities (note 14)	**1,273,442**	**(1,055,255)**	**218,187**
Investment securities (note 15)	**1,999,792**	**-**	**1,999,792**
Other Assets (note 20)	**20,525**	**-**	**20,525**
	5,633,896	**(3,276,724)**	**2,357,172**
Credit risk exposures relating to off-balance sheet items are as follows:			
Loan commitments and other credit related obligations	**428,458**	**-**	**428,458**
	6,062,354	**(3,276,724)**	**2,785,630**

At 31 December 2014	Maximum Exposure £'000	Collateral £'000	Net exposure £'000
Loans and advances to banks	35,040	-	35,040
Loans and advances to customers:			
- Loans to individuals (note 14)	881,144	(825,135)	56,009
- Loans to corporate entities (note 14)	714,641	(654,132)	60,509
Investment securities (note 15)	1,611,451	-	1,611,451
Other Assets (note 20)	13,661	-	13,661
	3,255,937	(1,479,267)	1,776,670
Credit risk exposures relating to off-balance sheet items are as follows:			
Loan commitments and other credit related obligations	249,216	-	249,216
	3,505,153	(1,479,267)	2,025,886

As shown above, 59% (2014: 47%) of the total maximum exposure is derived from loans and advances to banks and customers; 33% (2014: 46%) represents investments in high quality debt securities.

28. Credit risk (continued)

Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to customer by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

LTV ratio	**31 December 2015 £'000**	31 December 2014 £'000
Less than 50%	**594,444**	314,059
51-70%	**962,994**	415,848
71-90%	**495,921**	95,228
91-100%	**46,219**	-
More than 100%	**56,841**	-
Total	**2,156,419**	825,135

Loans and advances to corporate customers

The general credit worthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

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

	2015		2014	
	Gross balance £'000	**Concentration %**	Gross balance £'000	Concentration %
Real estate (rent, develop, buy and sell)	**627,904**	**50%**	340,630	55%
Legal, Accountancy & Consultancy	**133,848**	**11%**	68,015	11%
Health & Social Work	**95,722**	**8%**	53,065	9%
Hospitality	**40,007**	**3%**	39,749	6%
Investment & Unit Trusts	**-**	**0%**	23,052	4%
Retail	**80,030**	**8%**	13,461	2%
Real estate (management of)	**46,707**	**4%**	8,575	1%
Recreation, cultural & sport	**6,859**	**1%**	6,769	1%
Construction	**39,116**	**3%**	8,698	1%
Education	**3,289**	**0%**	4,184	1%
Other	**37,757**	**12%**	53,273	9%
At 31 December	**1,111,239**	**100%**	619,471	100%

28. Credit risk (continued)

Commercial exposures represent a growing part of the total lending portfolio. The average debt-to-value ("DTV") of the commercial loan book is stable and below 60%. The proportion of lending with DTV above 80% has decreased over the last 3 years and collections performances continue to improve. DTV is calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral.

	31 December 2015 £'000	31 December 2014 £'000
Total commercial lending	**1,273,442**	714,641
% of total lending	**36%**	45%
Average DTV	**57%**	57%
DTV > 80%	**6%**	10%
NPL (non-performing-loan) ratio*	**0.1%**	0.7%

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

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

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

As at 31 December 2015, the exposure from forbearance arrangements was £7.7m (31 December 2014: £0.2m).

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:

- 66% (2014: 64%) of the debt securities are AAA rated and 16% (2014: 17%) are AA rated;
- 92% (2014: 93%) of loans and advances to customers are backed by collateral;
- Over 99% (2014: 99%) of the loans and advances portfolio is considered to be unimpaired.

29. Liquidity risk

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

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

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

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 stable deposit nature of the bank's business model.

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

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

29. Liquidity risk (continued)

31 December 2014	Repayable on demand £'000	Up to 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	Over 5 years £'000	No Contractual maturity £'000	Total £'000
Cash and balances with the Bank of England	180,630	-	-	-	-	-	-	180,630
Loans to banks	35,040	-	-	-	-	-	-	35,040
Loans to customers	-	135,238	81,778	155,845	1,076,924	312,266	53,250	1,815,301
Investments	-	18,273	6,669	80,473	1,321,792	327,844	-	1,755,051
Total financial assets	215,670	153,511	88,447	236,318	2,398,716	640,110	53,250	3,786,022
Other assets	-	-	-	-	-	-	-	-
Total assets	215,670	153,511	88,447	236,318	2,398,716	640,110	53,250	3,786,022
Customer accounts	(2,208,961)	(186,385)	(107,496)	(257,616)	(91,552)	-	(20,298)	(2,872,308)
Repurchase agreements		(205,803)	(40,179)	(26,935)	-	-	-	(272,917)
Other liabilities	-	-	-	-	-	-	-	-
Total financial liabilities	(2,208,961)	(392,188)	(147,675)	(284,551)	(91,552)	-	(20,298)	(3,145,225)
Capital	-	-	-	-	-	-	-	-
Total liabilities	(2,208,961)	(392,188)	(147,675)	(284,551)	(91,552)	-	(20,298)	(3,145,225)
Cumulative liquidity gap	(1,993,291)	(2,231,968)	(2,291,196)	(2,339,429)	(32,265)	607,845	-	-

30. Market risk

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

Investment price risk

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

Changes in the value of treasury assets accounted for as available for sale (AFS) are taken to the AFS reserve, and under CRD IV, directly reduce the bank's capital resources where negative. The table below is a projection of the impact on the market value of AFS securities held at 2015 year-end, of a plus and minus 1.00% and 2.00% parallel shift in the yield curve (disregarding any interest rate floors). Stressed fair values are calculated on the same methodology as the bank uses for calculating current fair values on its AFS investments. The sensitivity analysis is performed only on the fixed rate assets in the AFS portfolio excluding floating rate assets, on which changes in the yield curve would have a negligible effect.

30. Market risk (continued)

Sensitivity of prices of investment securities to changes in yield curves	200bp decrease £'000	100bp decrease £'000	100bp increase £'000	200bp increase £'000
At 31 December 2015	14,840	7,230	(6,880)	(13,420)
At 31 December 2014	15,176	10,659	(10,821)	(21,202)

Interest rate risk

The principal market risk Metro Bank is exposed to is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps which arise due to differences in time 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 Bank manages this risk within limits set and approved by the Board.

Limits are set for the market value of equity (MVoE) and net interest income (NII). MVoE shall not drop more than £10m based on the worse of a +200bp or -200bp instantaneous symmetrical parallel shock to interest rates, and one-year NII shall not drop more than £7.5m based on the same shock. The MVoE limits are monitored daily by Risk, whilst the NII limits are monitored twice monthly. Performance against each limit is reported monthly to the ALCO (with exceptions communicated by email), and noted by the Risk Oversight Committee and the Board.

Furthermore, limits are set for asymmetrical movements between LIBOR and the Bank of England Base Rate. An increase in LIBOR of 100bps or a decrease of 15bps, each relative to the Base Rate, must not cause one-year NII to drop by more than £7.5m.

Performance against these limits is set out below, noting that the limits changed during Q3 2015 as a result of discussions around the Independent Capital Adequacy Assessment Process ("ICAAP"). The old MVoE limit of £6m applied up to and including June 2015, the NII limit of £4.5m applied through to July 2015, and the basis risk scenario was +83bps/-29bps up to and including August 2015.

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.

30. Market risk (continued)

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

31 December 2014 (restated)*	Up to 3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	Over 5 years £'000	Non-interest bearing £'000	Total £'000
Loans to banks	33,432	-	-	-	-	1,608	35,040
Loans to customers	902,963	44,006	124,806	502,851	5,947	9,773	1,590,346
Other assets	1,261,483	-	-	314,175	79,989	379,487	2,035,134
Total assets	**2,197,878**	**44,006**	**124,806**	**817,026**	**85,936**	**390,868**	**3,660,520**
Customer accounts	(1,554,145)	(107,992)	(255,627)	(90,441)	-	(858,426)	(2,866,631)
Other liabilities	(287,103)	(1)	15,003	-	-	(59,387)	(331,488)
Shareholders' funds	-	-	-	-	-	(462,401)	(462,401)
Total equity and liabilities	**(1,841,248)**	**(107,993)**	**(240,624)**	**(90,441)**	**-**	**(1,380,214)**	**(3,660,520)**
Interest rate sensitivity gap	356,630	(63,987)	(115,818)	726,585	85,936	(989,346)	-
Cumulative gap	356,630	292,643	176,826	903,411	989,347	-	-

30. Market risk (continued)

The following is an analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming a constant financial position.

	200bp increase £'000	200bp decrease (floored at zero) £'000
Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period		
2015		
At 31 December	471	(882)
2014		
At 31 December	(1,830)	(40)
Sensitivity of projected one-year net interest income to movements in the spread from Bank Base Rate to LIBOR	**+83bps LIBOR vs BBR**	**-29bps LIBOR vs BBR**
2015	**£'000**	**£'000**
At 31 December	7,536	(1,151)
2014		
At 31 December	5,060	(1,750)

31. Fair value of financial instruments

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

31. Fair value of financial instruments (continued)

		Fair value - Valuation techniques			
	Carrying value £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total fair value £'000
31 December 2015					
Assets					
Cash and balances with the Bank of England	217,900	-	-	-	217,900
Loans and advances to banks	64,248	-	-	64,248	64,248
Loan and advances to customers	3,542,548	-	-	3,614,877	3,614,877
Investment securities	1,999,792	657,681	1,335,653	-	1,993,334
Liabilities					
Deposits from customers	5,107,656	-	-	5,095,942	5,095,942
Repurchase agreements	561,778	-	-	-	561,778
31 December 2014					
Assets					
Cash and balances with the Bank of England	180,630	-	-	-	180,630
Loans and advances to banks	35,040	-	-	35,040	35,040
Loan and advances to customers	1,590,346	-	-	1,588,309	1,588,309
Investment securities	1,611,451	417,332	1,200,930	-	1,618,262
Liabilities					
Deposits from customers	2,866,631	-	-	2,866,631	2,866,631
Repurchase agreements	282,544	-	-	-	282,544

For the cash and balances with the Bank of England and repurchase agreements, the carrying value approximates to the fair value, and therefore no pricing level has been identified for them above.

31. Fair value of financial instruments (continued)

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

(a) *Cash and balances with the Bank of England / Loans and advances to banks*
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

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

(c) *Investment securities*

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

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

(e) *Repurchase agreements*
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

32. 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:

	2015	2014
	£'000	£'000
Salaries and other short-term benefits	**3,205**	3,102
Share based payment cost	**990**	514
Contributions to pension arrangements	**136**	176
	4,331	3,792

32. Related party transactions (continued)

Banking transactions with key management

The bank provides banking services to Directors and other Key Management Personnel and persons connected to them. Loan transactions during the year and the balances outstanding at 31 December 2015 were as follows:

	2015	2014
	£'000	£'000
Loans payable to the bank		
Loans outstanding at 1 January	**2,268**	898
Loans relating to former key management personnel	**(143)**	-
Loans outstanding at 1 January for current key management personnel	**2,125**	898
Loans issued during the year	**982**	1,402
Loan repayments during the year	**(578)**	(32)
Loans outstanding at 31 December	**2,529**	2,268
Interest expense on loans payable to the bank	**58**	61

There were seven (31 December 2014: six) loans outstanding at 31 December 2015 totalling £2,529,000 (31 December 2014: £2,268,000). Of these, six are residential mortgages and one is an unsecured loan; all seven loans were provided on normal commercial terms.

Credit card balances outstanding at 31 December 2015 and 2014 were as follows:

	2015	2014
	£'000	£'000
Credit card balances outstanding at 31 December	**40**	39

Deposit balances outstanding at 31 December 2015 and 2014 were as follows:

	2015	2014
	£'000	£'000
Deposits outstanding at 1 January	**4,151**	5,548
Net amounts deposited / (withdrawn)	**393**	(1,397)
Deposits outstanding at 31 December	**4,544**	4,151

Other transactions with related parties

The following transactions were carried out with related parties:

	2015	2014
	£'000	£'000
Purchases of services		
– Entity connected to key management personnel	**2,307**	**2,602**
– Amounts outstanding as at 31 December owed by Metro Bank	**151**	**165**

32. Related party transactions (continued)

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

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

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

Branding, Marketing and Advertising
InterArch also provides branding, marketing and advertising services to the bank. A monthly fee is payable and the current agreement will terminate on 31 December 2016.

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.

33. Capital management

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

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

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

33. Capital management (continued)

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

	2015	2014
	£'000	£'000
Tier 1 capital		(restated)*
Ordinary share capital	-	-
Share premium	629,304	629,304
Retained earnings	(213,440)	(164,243)
Intangible assets	(54,243)	(34,669)
Deferred tax asset	(53,053)	(43,645)
Other reserves	(8,689)	(2,660)
Total regulatory capital	**299,879**	**384,087**

34. Investments in subsidiaries

The Group had the following subsidiaries at 31 December 2015:

Name	**Country of Incorporation and place of business**	**Nature of business**	**Proportion of ordinary shares directly held by parent (%)**	**Proportion of ordinary shares held by the Group (%)**
SME Invoice Finance Limited	UK	Invoice finance and factoring	100	-
SME Asset Finance Limited	UK	Asset finance	-	100

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

Transactions with Group Companies

	2015	2014
	£'000	£'000
– Interest on intercompany loan with SME Invoice Finance	**1,724**	1,044
– Amounts outstanding as at 31 December owed by SME Invoice Finance	**97,432**	59,727

35. Ultimate controlling party

The parent entity is Metro Bank Plc. No single entity or individual has a controlling interest in Metro Bank PLC parent entity.

36. Prior period adjustments

The bank reached agreement with the UK tax authorities on its Value Added Tax (VAT) Partial Exemption Special Method on 23 December 2015, covering the period 2009 to 2015. Following this the Group has reassessed the accounting treatment of the VAT amount recoverable by the bank and have processed the required prior year adjustments through 2013 and 2014 in order to reflect actual recoveries of VAT in each of these periods. The following adjustments have been processed:

Adjustment 1 - True up of the VAT receivable due at year end.

Adjustment 2 - Reflecting the recognition of our net VAT receivable as a credit to income statement or property, plant and equipment depending on the accounting for the expenditure on which VAT was initially incurred.

Adjustment 3 - Recording the related depreciation adjustments arising as a result of adjustment 2.

Adjustment 4 - During 2015, a review of VAT calculated on invoices received from overseas suppliers was performed and as a result related liabilities have been adjusted.

Deferred tax adjustments required as a result of adjustments 1-4 have been processed.

Adjustment 5 - Following a revision to our accounting policy for recognition of certain income in our Invoice Finance business, the Group has reclassified prior period income from Fee and Commission income to Interest income.

Adjustment 6 - During 2015 the Group has have recognised a deferred tax asset relating to share options and a deferred tax liability relating to property, plant & equipment and relief on Research & Development expenditure. The Group has also processed the respective deferred tax adjustments relating to prior years. In addition, a small true up has been posted to correct the classification of a corporation tax creditor in our Invoice Finance business.

The impact of these adjustments on the relevant income statement and balance sheet is detailed below.

36. Prior year adjustments (continued)

Adjustments to 2014 income statement and balance sheet

Year ended 31 December 2014	As previously disclosed £'000	Adj 1 True up of VAT receivable due at year end	Adj 2 Recording receivable against property, plant and equipment	Adj 3 Adjustment to depreciation	Adj 4 VAT accrual	Adj 5 Recognition of invoice finance income	Adj 6 Restatement of deferred tax asset	Restated £'000
Net interest income	49,407					4,021		53,428
Other income	26,040					(4,021)		22,019
Operating expenses	(107,542)	760	(1,095)		(63)			(107,940)
Depreciation and amortisation	(14,349)			128				(14,221)
Other expenses and charges	(2,157)							(2,157)
Loss before tax	**(48,601)**	**760**	**(1,095)**	**128**	**(63)**	**-**	**-**	**(48,871)**
Taxation	9,738	(144)	208	(24)	13	-	(2,030)	7,759
Loss for the year	**(38,863)**	**616**	**(887)**	**104**	**(50)**	**-**	**(2,030)**	**(41,112)**

36. Prior year adjustments (continued)

Year ended 31 December 2014	As previously disclosed £'000	Adjustment to opening retained earnings	Adj 1 True up of VAT receivable due at year end	Adj 2 Recording receivable against property, plant and equipment	Adj 3 Adjust ment to depreci ation	Adj 4 VAT accrual	Adj 6 Restatement of deferred tax asset	Restated £'000
Property, plant and equipment	133,907	(1,220)		(620)	128			132,195
Prepayments and accrued income	19,090	3,570	(3,777)					18,883
Deferred tax asset	45,511	113	(144)	208	(24)	12	(2,030)	43,645
Other assets	3,465,797	(4,537)	4,537					3,465,797
Total assets	**3,664,305**	**(2,074)**	**616**	**(412)**	**104**	**12**	**(2,030)**	**3,660,520**
Deposits from customers	2,866,631							2,866,631
Other liabilities	328,579	2,371		475		62		331,488
Total liabilities	**3,195,210**	**2,371**		**475**		**62**		**3,198,119**
Share capital / premium	629,304							629,304
Retained earnings	(157,549)	(4,445)	616	(887)	104	(50)	(2,030)	(164,243)
Other reserves	(2,660)							(2,660)
Total shareholders' equity	**469,095**	**(4,445)**	**616**	**(887)**	**104**	**(50)**	**(2,030)**	**462,401**

***36.* Prior year adjustments (continued)**

Adjustments to 2013 income statement and balance sheet

Year ended 31 December 2013	As previously disclosed £'000	Adj 1 True up of VAT receivable due at year end	Adj 2 Recording receivable against property, plant and equipment	Adj 3 Adjustment to depreciation	Adj 4 VAT accrual	Adj 5 Recognition of invoice finance income	Adj 6 Restatement of deferred tax asset	Restated £'000
Net interest income	16,232					1,714		17,946
Other income	15,302					(1,714)		13,588
Operating expenses	(72,320)	(1,216)	(1,621)		(496)			(75,652)
Depreciation and amortisation	(10,369)			77				(10,292)
Other expenses and charges	(1,026)							(1,026)
Loss before tax	**(52,181)**	**(1,216)**	**(1,621)**	**77**	**(496)**	**-**	**-**	**(55,436)**
Taxation	10,383	231	308	(15)	94	-	(2,001)	9,000
Loss for the year	**(41,798)**	**(985)**	**(1,313)**	**62**	**(402)**	**-**	**(2,001)**	**(46,436)**

36. Prior year adjustments (continued)

Year ended 31 December 2013	As previously disclosed £'000	Adjustment to opening retained earnings	Adj 1 True up of VAT receivable due at year end	Adj 2 Recording receivable against property, plant and equipment	Adj 3 Adjustment to depreciation	Adj 4 VAT accrual	Adj 6 – Restatement of deferred tax asset	Restated £'000
Property, plant and equipment	104,506	(476)		(821)	77			103,286
Prepayments and accrued income	4,983	249	3,321					8,553
Deferred tax asset	35,773	1,397	231	308	(15)	94	(1,902)	35,885
Other assets	1,746,306		(4,537)					1,741,769
Total assets	**1,891,568**	**1,170**	**(985)**	**(513)**	**62**	**94**	**(1,902)**	**1,889,493**
Deposits from customers	1,315,389							1,315,389
Other liabilities	171,166	976		800		496	99	173,536
Total liabilities	**1,486,555**	**976**		**800**		**496**	**99**	**1,488,925**
Share capital / premium	530,463							530,463
Retained earnings	(118,686)	194	(985)	(1,313)	62	(402)	(2,001)	(123,131)
Other reserves	(6,764)							(6,764)
Total shareholders' equity	**405,013**	**194**	**(985)**	**(1,313)**	**62**	**(402)**	**(2,001)**	**400,568**

37. Post balance sheet events

On 26 January 2016 the Remuneration Committee confirmed that a number of senior executives would participate in a variable award contingent on both a successful Private Placement and the successful listing of the Bank (the "Project Revolution Award"). In total awards are not expected to exceed £6 million and will be awarded in cash which will be used to purchase restricted Shares for the relevant individuals. 20% of the shares issued will vest immediately with the remaining shares vesting in equal portions of 16% each on 30 April 2017 and each anniversary after that until 30 April 2021.

On 4 March 2016, Metro Bank issued a further 20,000,000 new shares at £20 per share, further to an Offer for subscription on 16 February 2016, for gross consideration of £400m. This capital raising will become unconditional when the Company's shares are admitted for trading on the London Stock Exchange, which is expected to be on 10 March 2016. The Prospectus in respect of this listing was approved by the UK Listing Authority prior to the signing of these financial statements.

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