join the revolution

METRO BANK PLC
ANNUAL REPORT AND ACCOUNTS 2016

creating FANS not customers

Metro Bank is Britain's first new high street bank in over 100 years.
The revolution in British banking.

"
Great companies are built by creating legendary brands based on a:

Differentiated **Model**
Reinforced **Culture**
Fanatical **Execution**
"

Index on inside back cover

Chief Executive Officer
Craig Donaldson

Founder and Chairman
Vernon W. Hill, II

OUR DISRUPTIVE MODEL

creating FANS generates

Investing in...

FANATICAL PHYSICAL EXECUTION

- Thinking like retailers while being the most professional bankers
- Stores open "early till late", 362 days a year
- 24/7 telephony, 365 days a year
- With instant fulfilment – "walk out working" with debit and credit cards, mobile app, internet and telephony

INTEGRATED TECHNOLOGY

- With real-time processing enabling real-time fulfilment
- Making customers' lives easier
- Offering customers their channel of choice (store, contact centre, online, mobile)

And FANS...

FANS

- Create advocacy and referral
- Tell their friends, family and colleagues to join us
- Bring more and stay longer as they join us for what we are

DEPOSITS

- Which are diversified, sticky and low-cost
- From retail, commercial and private customers
- Across current accounts, fixed and variable savings (and, of course, we shouldn't forget instant access safe deposit boxes)

OUR DISRUPTIVE MODEL

long-term value for everyone

UNIQUE CULTURE

- AMAZEING values
- Where we "hire for attitude, train for skill"
- With colleague empowerment – "no stupid rules"
- Where everyone's an owner
- And part of the community we serve

CREATES FANS

- Surprising and delighting every customer
- With consistent and transparent propositions that encourage and reward loyalty
- With banking focused on both personal customers and entrepreneurs

LENDING

- Which is low-risk and diversified, creating a positive net interest margin
- To retail, commercial and private customers
- Across overdrafts, credit cards, unsecured lending, mortgages, asset and invoice finance and money management accounts

CREATES LONG-TERM VALUE

- By building a trusted franchise and brand
- Diversified across retail, commercial and private banking
- Providing reliable income growth at low-risk
- With a cost base focused on creating and supporting FANS

HIGHLIGHTS

our AMAZEING growth

Five-year track record

	2016	YoY% *increase*	2015	2014	2013	2012
Assets	**£10.1bn**	+64%	£6.1bn	£3.7bn	£1.9bn	£0.8bn
Customer deposits	**£8.0bn**	+56%	£5.1bn	£2.9bn	£1.3bn	£0.6bn
Net average deposits per store per month	**£5.7m**	+8%	£5.3m	£4.9m	£3.4m	£3.1m
Net customer loans	**£5.9bn**	+66%	£3.5bn	£1.6bn	£0.8bn	£0.2bn
Underlying loss before tax	**£(11.7m)**	improved 75%	£(46.6m)	£(48.9m)	£(55.4m)	£(45.7m)

2016 highlights

STRATEGIC

- Completion of a £400 million capital raise
- Listing on the Main Market of the London Stock Exchange
- Record increase in customer accounts from 655,000 to 915,000 year-on-year
- Brand recognition of 84%[1] across the London market and Net Promoter Score of 78%

Read more on pages 10–21

OPERATIONAL

- Expanded our network to 48 stores, with eight opening in 2016
- Nearly 2,500 colleagues now work for Metro Bank, an increase of almost 500 in 2016
- Launch of a game-changing commercial banking platform in November 2016
- First UK retail bank to join the Faster Payments scheme since the service was launched in 2008

Read more on pages 10–21

FINANCIAL

- Underlying[2] profit before tax in Q3 and Q4 2016 (£0.6 million and £1.5 million)
- Positive income (+62%) and operating expense (+26%) jaws from 2015 to 2016
- Decrease in underlying[3] loss before tax for the year from £46.6 million in 2015 to £11.7 million in 2016
- Decrease in statutory loss before tax for the year from £56.8 million in 2015 to £17.2 million in 2016
- LTD ratio increased to 73.8% from 69.4%
- Improved CET1 ratio to 18.1% from 13.1%

Read more on pages 22–23

Visit our website for more information.
metrobankonline.co.uk

1 Brand awareness figures are from YouGov Plc. Total sample size was 1,021 adults. Fieldwork was undertaken between 14 and 17 February 2017. The survey was carried out online. The figures have been weighted and are representative of all London adults (aged 18+).
2 Underlying loss before tax for the quarter excludes Listing and related costs, the FSCS levy and impairment of plant and equipment and intangible assets.
3 Underlying loss before tax for the year excludes Listing and related costs and impairment of plant and equipment and intangible assets.

CHAIRMAN'S STATEMENT

revolutionising british banking

In August 2010, the revolution in British banking began with the opening of Metro Bank as the first new British high street retail bank in 100+ years.

Dear shareholders, customers and friends – our FANS.

Metro Bank is a Power Retailer created to redefine Retail and Business banking in Britain by delivering a unique, AMAZEING experience with unmatched service and convenience.

Our goal is to create a legendary global emotional brand by creating FANS who join our brand, remain loyal and bring their friends.

We believe that our success is based on:
- a differentiated, value-added **model** which exceeds customers' expectations;
- a pervasive and reinforcing **culture**; our social fabric; and
- Fanatical **execution** which eliminates stupid bank rules, AMAZES our customers and exceeds expectations.

Vernon W. Hill, II – Founder and Chairman

"We want to thank both the business community and consumers for their tremendous support."

2010
JULY
Metro Bank launches its first store in Holborn in London.

2011
FOURTH QUARTER
Metro Bank opens its tenth store.

2012
FOURTH QUARTER
Metro Bank's deposit balances grow to £500 million and the number of customer accounts grows to 100,000.

Holborn

Metro Bank delivers its unique experience to both retail and business customers through:

- our flagship 48 stores throughout the south-east, the best locations in the best areas, open seven days a week; and
- industry-leading online, mobile and telephone banking.

Our commitment is to offer our customers the best in every channel.

The response of the British public has exceeded even our expectations.

Launched in 2010, our investment results have been spectacular.

- Opening in 2010 with a £75 million private equity raise.
- Five more offerings through 2016 totalling £1 billion in private capital.
- In March 2016, our listing on the London Stock Exchange, symbol MTRO, and our inclusion in the FTSE 250 at a price of £20.00.
- As at 28 February 2017, MTRO share price was £34.21, a 70% increase since Listing.
- Our market capitalisation has grown to over £2.8 billion and we are the 142nd company in the FTSE 350.
- Our six year average annual shareholder return is 50% per year.

1 Quarterly underlying profit/(loss) before tax excludes FSCS levy of £0.7 million, which is included in the full-year underlying loss before tax.

Our future is limited only by our success in AMAZEING our FANS.

My thanks to our customers, FANS, colleagues, leaders and Directors.

The best is yet to come.

Vernon W. Hill, II
Founder and Chairman
2 March 2017

OUR 2020 GROWTH PLAN

	2020 target	2016
Deposits	**c.£27.5bn**	**£8.0bn**
Stores	**c.110**	**48**
Deposits per store per month	**c.£5.25m**	**£5.7m**
Loan to deposit	**c.80%**	**74%**
Cost: Income ratio	**c.60%**	**106%**
Return on Equity	**c.18%**	**n/a**

2013
THIRD QUARTER
Metro Bank's deposit balances grow to £1 billion, its lending balances grow to £500 million and the number of its stores grows to 20.

NOVEMBER
Metro Bank is named 'Bank of the Year' at the City AM Awards 2013 in London.

2014
THIRD QUARTER
The number of Metro Bank's customer accounts grows to 400,000. The number of Metro Bank's stores grows to 30.

2015
THIRD QUARTER
Metro Bank's deposit balances grow to £4 billion, and Metro Bank is named top Gold winner in Fairer Finance's league table of bank accounts.

FOURTH QUARTER
Metro Bank is awarded a Microsoft 'Visionary' award for innovative use of technology.

FOURTH QUARTER
Metro Bank's deposit balances grow to £5 billion; its lending balances grow to £3.5 billion; and the number of its stores grows to 40.

2016
MARCH
Listing on London Stock Exchange.

JUNE
Metro Bank CEO Craig Donaldson ranked number one in Glassdoor's Highest Rated CEO 2016.

NOVEMBER
Metro Bank is named 'Bank of the Year' at the City AM Awards 2016 in London.

DECEMBER
Metro Bank's total assets surpass £10 billion at the same time as customer accounts exceed 900,000.

FOURTH QUARTER
After store openings in April and July, a further six stores are opened, taking total number of stores to 48.

CHIEF EXECUTIVE OFFICER'S STATEMENT

growing the revolution

2016 has been a fantastic year. From Listing on the London Stock Exchange, to growing our customer account base to over 900,000 FANS; to creating another 500 jobs and going into profitability. Metro Bank continues to go from strength to strength.

Craig Donaldson – Chief Executive Officer

"Our model is about creating FANS. We focus on creating FANS, and those FANS are telling their friends, families and colleagues that they should bank with us. And I'm very, very proud of that."

Introduction
We are delighted to present our first Annual Report as a listed company. This has been another great year for Metro Bank. We have expanded our network to 48 stores and created 500 jobs serving 915,000 customer accounts, with substantial growth across lending, deposits and customer accounts, as well as delivering two quarters of underlying profit and our first quarterly statutory profit. We continue to show strong deposit growth even as the cost of our deposits falls. This demonstrates that our offering of relevant, convenient high-impact stores, UK-based contact centres and easy-to-use online and mobile services is persuasive for retail, business and private customers.

Our customer-focused model and culture and commitment to providing a superior banking experience remain at the forefront of our offering. We remain committed to long-term, sustainable growth and in 2016 invested over £100 million on stores, technology and on training our colleagues.

Results overview
Metro Bank has had an excellent year, generating substantial growth in deposits and lending and achieving the month-on-month profitability we promised in the fourth quarter of 2016. Revenue is up 62% year-on-year and underlying loss before tax is down 75% to £11.7 million, compared to £46.6 million in 2015.

"Metro Bank is a growth company investing for growth in stores, people and technology."

During 2016, we continued to be fully funded by customer deposits, with deposit growth per store of £5.7 million per month. As of 31 December 2016, total customer deposits were £7,951 million, up from £5,108 million at 31 December 2015.

Our strong growth during the year was achieved while maintaining a high-quality balance sheet. At the end of the year, our Common Equity Tier 1 capital ratio was 18.1%, strengthened by our £400 million capital raise, and our leverage ratio was 6.5%. During the year, we continued to manage our balance sheet carefully with a view to maintaining quality and efficiency.

Both the momentum and quality of our lending have been strong, with a 66% year-on-year increase in lending. Strong growth across both residential mortgages and commercial lending has resulted in our loan to deposit ratio further improving to 74%, as we have enabled more people to buy their houses and more businesses to grow.

Our business has not changed as a result of the UK public's decision to exit the European Union in June 2016. The Bank of England's subsequent decision to reduce the UK base rate has been passed on to lending customers and deposit holders. However, our savings promise holds true: we reward loyalty; we won't cut your rate while offering a better rate to new customers.

Our model

A superior retail-focused customer service proposition emphasising simple, straightforward banking turns our customers into FANS. Our focus on making life easier for customers resulted in rapid growth in 2016. Our success speaks volumes about our dedication to providing uncomplicated services and products that people need.

We pride ourselves on our high street presence, with each of our stores firmly rooted in the local community that it serves. Each of our stores hosts a range of initiatives throughout the year to support residents and businesses, from free financial education programmes for schoolchildren to SME networking events.

Our highly motivated and engaged team of colleagues are committed to providing dedicated service to FANS. This customer-centric culture pervades our recruitment and training policies, and we are committed to hiring colleagues with the right attitude as a priority and then training for skill.

Building the bank from the ground up has given us strong advantages; we have connected with local communities and attracted customers and deposits by placing attractive, relevant stores in the right locations. We have created a bank with sound values, superior service levels and state-of-the-art IT infrastructure.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

Our FANS
Through our *Voice of the Customer* programme we analyse customer feedback across all channels – store, telephone, social media, online and app – and use it to constantly improve our offering.

In 2016, our Net Promoter Score – the recognised marketing benchmark gauging customer loyalty – was 78%. That score remains in line with prior years, demonstrating that our customer focus continues as our network expands. Our brand recognition in February 2017 has risen to 84% across the London market. *And all through word of mouth by our* FANS: that's what we call marketing.

Over the year, we have bolstered our offering to commercial customers. Our sector-specialist teams now work with local authorities, social housing, organisations, hotels and leisure companies, franchises, property companies, not-for-profit organisations and healthcare companies to name but a few, whilst our Local Directors and Regional Commercial teams support businesses in their local areas. Each team offers a wide range of commercial and mortgage lending products, and each has grown significantly in the last 12 months. Invoice and Asset financing has also continued to deepen the relationship and breadth of our service offering to our customers.

During 2016, our Mortgage team continued to grow, and we launched an industry-leading retention proposition focused on customer convenience. This 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 provide a relationship-driven service through simple banking and lending services, and focus on Sports and Entertainment, Boards and Partners, and Entrepreneurs and Commercial Private Clients (for those with combined personal and commercial business interests).

Finally, partnerships; we've continued to partner with complementary wealth management firms and pension providers to provide products and *services that our and their customers* value, such as our inter-generational mortgage with St James's Place and our Money Management Accounts. These partnerships are an important part of Metro Bank and our ability to create FANS.

Integrated service delivery
Through our integrated store, mobile, online and telephone banking services, we provide an unparalleled level of tangible convenience for customers. By providing our customers with increasingly seamless access to their banking services across channels, we put control with the customer to use the channel of their choice at a time of their convenience, at any point in the customer journey. Our award-winning, legacy-free IT platform enables us to deliver a faster, more informed and more secure service to customers without friction across multiple channels and systems.

Throughout 2016, we continued to invest in back office infrastructure; enhancing operational performance and resilience, including implementing more straight-through processing and single customer view functionalities; leading cyber security controls, such as web application firewalls to protect our external websites; malware detection tools to protect data; and a 24/7 managed security service to monitor our IT infrastructure.

We have also made significant digital investment, with the launch of a new public website with a geo-user interface in August; *our game-changing commercial* banking platform, launched in November, providing a single customer view dashboard to organisations with subsidiaries, helping businesses to quickly and easily view all companies they operate; and our new mobile app for Business and Personal customers, which provides a new platform onto which much more will be built during 2017. We also became the first UK retail bank to join the Faster Payments Scheme since the service was launched in 2008, and we have now rolled out Apple Pay and Android Pay for our customers.

2016 awards

GOLD RIBBON FOR CUSTOMER SERVICE

BEST BRANCH STRATEGY AWARD

GAME-CHANGING PARTNERSHIP WITH ZOPA

London Stock Exchange 10 March 2016

Our 2016 awards
We're proud to be *Moneywise's* Most Trusted Financial Provider 2016, where we were also awarded another four *Moneywise* Customer Service Awards for a range of our products and services. We were also announced as Bank of the Year at the 2016 *City AM Awards* and included as one of the *London Stock Exchange's* "1000 Companies to Inspire Britain" in 2016. On top of this, we won several technology awards, as well as a number of individual awards for colleagues.

Successful Listing on the London Stock Exchange
The revolution in British banking entered a new era on 10 March 2016 with the Listing of Metro Bank (MTRO) shares on the Main Market of the London Stock Exchange. The successful flotation of Metro Bank followed a private capital raising that saw investors commit £400 million of new funding in support of the Company's growth plans. We will use the funds we have raised to power the next phase in Metro Bank's growth across our integrated service offering.

Plans for the future
Most excitingly of all, this is just the beginning. From a 2010 vision of a revolutionary new bank creating FANS to six years later, 2,500 colleagues serving 915,000 customer accounts and with the best yet to come as we grow towards our 2020 targets and beyond.

To Metro Bank's FANS, to the colleagues who serve them and to all our supportive shareholders – thank you.

Craig Donaldson
Chief Executive Officer
2 March 2017

TECHNOLOGY INNOVATION
ENTERPRISE AWARD

MOST TRUSTED
FINANCIAL PROVIDER

MOST TRUSTED CURRENT
ACCOUNT PROVIDER

MOST TRUSTED SAVINGS
AND CASH ISA PROVIDER

BEST CURRENT ACCOUNT PROVIDER
FOR BRANCH SERVICE

BEST PROVIDER OF CHILDREN'S
SAVINGS ACCOUNT

a huge market, in need of disruption

A unique service model well placed for exceptional growth.

Market overview
Metro Bank has delivered exceptional growth since its launch in 2010, despite being launched at a difficult time for the banking market and the UK economy as a whole. Since 2010, the UK economy has performed well, and that has supported a strong banking market. Regulatory initiatives that promote competition, and changing customer needs, are creating opportunities for fast-moving and customer-focused banks. Metro Bank's strategy leaves us well placed to continue to grow and create FANS.

> "Banks that successfully deliver a seamless customer experience will be rewarded with customers who come back for more and tell their families and friends to do so, too. This in turn produces growth and profitability.[1]"

The UK economy
Metro Bank is based solely in the UK, and therefore the UK economy affects the conditions in which it operates. UK economic performance has been positive: GDP grew by 2.2% in 2015[2] and is forecast to grow 2.1% in 2016 and 1.4% in 2017.[3]

The vote by the British public to leave the EU on 23 June 2016 caused some economic uncertainty. Immediately following the vote, the Bank of England reduced the base rate for the first time since 2009 and Sterling reduced in value against the Dollar by 17%[4] up to the end of the year. In January 2017, the government announced its objectives for leaving the EU, stating that it intended to leave the single market.

However, we are seeing strong economic growth, which promotes good circumstances for lending and deposit growth. Interest rates are at historic lows, and any increases implemented to meet inflation targets would create new opportunities. A deterioration in economic conditions would impact banks in general, but we believe that our prudent approach to lending means this would represent an opportunity for Metro Bank as our model does well in times of market disruption.

The UK banking market
Positive economic growth has supported the continued expansion of the UK banking sector. Over the past year, the huge market in deposits and lending have grown 6.1% and 4.2% respectively.[5]

The market for mortgages has been strong, with continued house price growth and an increasing number of first-time buyers (335,750 in 2016 – the highest since 2007[6]). Recent changes to tax and underwriting criteria on buy-to-let mortgages will make this area less attractive to investors and could impact house prices. However, the continued excess of demand over supply is most likely to support continued growth.

Metro Bank has grown rapidly since inception, reaching £8.0 billion of deposits in 2016. Our vision for 2020 is to grow to £27.5 billion, which is only 1.3% of market share today.

> "Mobile is not the whole story. In retail, telecoms and nearly every other sector, customers still place a high value on in person contact.[11]"

Regulation

Through the Prudential Regulation Authority ("PRA"), the Bank of England manages prudential risk to the banking sector, including setting rules on capital and liquidity.

Banking regulators also have a duty to promote competition in the banking sector in order to give customers a better choice about the banking services they use. To combat historic customer inertia in changing banking providers, and the concentration of market share in the big five banks (four out of five personal current accounts[7]), regulators have launched a number of initiatives, such as the account switching programme, to enable greater competition. The second Payment Service Directive from 1 January 2018 is a significant step towards open banking, enabling third parties to access banking information and trigger payments, which reduces the historical benefits large banks have of owning customer data. These initiatives will create opportunities for banks that are able to adapt and grow quickly, and are not encumbered by legacy systems and ways of working. We are, therefore, well placed to take advantage of these opportunities.

Changing customer needs

In recent years, a number of disrupters have revolutionised the way customers are served across many industries. Uber has changed the way people can hail taxis and track their progress, WhatsApp has partially displaced telecomms companies and Netflix has transformed the provision of home entertainment, while Amazon (retail) and Apple (technology) continue to disrupt other industries through their ongoing innovation and exceptional customer service.

The success of disrupters aligning physical and technical delivery has highlighted key themes that are important across sectors: the importance of customer choice, of delivery at point-of-sale, of multi-channel delivery and a strong and trusted brand.

> "Banks need to create a seamless experience which delivers products and services smoothly and efficiently regardless of the channel.[1]"

These themes are echoed in the banking sector. The success of internet-only banks, and the plethora of companies investing in new digital technologies, underlines the digital opportunity. But, in contradiction to perceived wisdom, customers are also utilising their branch services in increasing numbers and will continue to do so (53% of customers are accessing a store at least once per month compared to 47% in 2010, and people from 18–21 are using it more than any other group[9]). The key conclusion is that customers want to be able to choose when and how they interact with their bank; Metro Bank's model enables them to do this.

72%

of consumers still go to the high street to access banking and financial services.[8]

1 Source: Bain and Co Survey, 2014.
2 Source: Office of National Statistics.
3 Source: Office of Budgetary Responsibility.
4 Source: Bloomberg.
5 Source: Bank of England.
6 Source: Halifax First-time buyers review.
7 Source: Baringa Market Analysis, December 2015.
8 Source: Deloitte Research Paper: "Bricks and Clicks – mapping the future of branches".
9 Source: Accenture.
10 Source: GFK PCA Investigation for the CMA.
11 Source: British Banking Association – Digital Disruption UK Banking Report.

delivering our vision

Our disruptive model – creating FANS to create long-term value for everyone – is reflected through our strategy and regularly monitored through our key performance indicators.

STRATEGIC INITIATIVE	PROGRESS IN 2016
INTEGRATED MODEL We create FANS by "surprising and delighting" customers across every channel through integrated technology and AMAZEING colleagues.	We opened eight new stores in 2016 – our regional network now includes 48 stores in Greater London and the south-east. Over the past 12 months, we have launched a new website with a geo-user interface, an online commercial banking platform, Apple Pay, Android Pay and a new personal and business mobile app.
UNIQUE CULTURE We recruit, train and lead our team to deliver our unique value-added model and create FANS.	Culture is of the utmost importance, with all colleagues receiving vision and values training on their first two days at Metro Bank, followed by a further six weeks for cashiers and customer service roles, and then, of course, regular training after that. Our in-house training centre, Metro Bank University, has expanded from sites in Holborn, Croydon, Fulham and Milton Keynes to also include new sites at Wimbledon and Slough. Performance assessments are focused on the effective delivery of Metro Bank values and customer service standards.
DIVERSIFIED, STICKY, LOW-COST DEPOSITS We attract deposits through our integrated model and unique culture which creates FANS.	Customer deposits grew by 56% to £7,951 million at 31 December 2016 (2015: £5,108 million), while deposit growth per store per month was a record £5.7 million for the year. We have had record growth in customer accounts in 2016 from 655,000 at 31 December 2015 to 915,000 at 31 December 2016, despite a fall in cost of deposits throughout the year (2016: 79bps; 2015: 82bps) with Q4 2016 cost of deposits at 66bps.
LOW-RISK, DIVERSIFIED LENDING We offer simple lending products to customers to meet personal and business needs. Our customer-centric underwriting process aims to ensure a low-risk loan book, which is the foundation of long-term growth.	Total loans grew 66% to £5,865 million at 31 December 2016 (2015: £3,543 million). Loans to commercial customers represent 36% of total lending as of 31 December 2016, with a stable average debt to value ratio at below 60% during the year. Our mortgage book grew substantially to £3,605 million, enabled by the attractive high-quality service we provide. Cost of risk remains low at 0.10% (2015: 0.29%) reflecting a rigorous credit focus and conservative risk profile.

KEY PERFORMANCE INDICATORS

NUMBER OF STORES

48
(2015: 40)

PRODUCT/SERVICE DEVELOPMENTS –

NEW COMMERCIAL BANKING PLATFORM

CUSTOMERS ON MOBILE APP

55%

CUSTOMERS REGISTERED FOR ONLINE BANKING

78%

NET PROMOTER SCORE

78%

VOICE OF THE COLLEAGUE RESULTS

94%
of colleagues think that Metro Bank is a great place to work

COLLEAGUES PROMOTED IN YEAR

>20%

COLLEAGUE HOURS OF TRAINING

>134,000
face-to-face

>47,000
computer-based

>23,000
side-by-side

RETAIL/COMMERCIAL AT 31 DEC 16 (DEPOSITS)

- Commercial 50%
- Retail 50%

DEPOSITS

£7,951m
up 56% from 2015

COST OF DEPOSITS

0.79%
(2015: 0.82%)

DEPOSIT GROWTH PER STORE PER MONTH

£5.7m
(2015: £5.3m)

NUMBER OF CUSTOMER ACCOUNTS

915,000
(2015: 655,000)

RETAIL/COMMERCIAL AT 31 DEC 16 (GROSS LENDING)

- Commercial 36%
- Retail 64%

LENDING

£5,865m
up 66% from 2015

NET INTEREST MARGIN

1.97%
(2015: 2.00%)

COST OF RISK

0.10%
(2015: 0.29%)

2017 OBJECTIVES

- Expand the catchment area of our store network through strategic expansion around existing store locations and new market opportunities.
- Continue to improve brand awareness as presence across all channels expands.
- Increase our digital capability, in stores and through mobile, tablet and online services, to enable customers to interact how they want, when they want.

- Foster an AMAZEING culture, reflected through colleague training, reviews, opportunities for promotion and benchmarking against global high-performing companies.
- Create 500 new jobs to support expansion of the business.

- Continue to attract sticky deposits while maintaining a low cost of deposits.
- Promote organic growth through existing stores, as well as opening new stores to attract FANS.
- Expand our FAN base by implementing technology to enable online account opening for new to franchise customers.

- Increase our loan to deposit ratio, while maintaining a cost of risk in line with target of c.0.2%.
- Support businesses through ring-fencing £1 billion of funds to lend to new and existing business and commercial customers.

OUR PURPOSE

creating FANS is at the heart of our culture

Successful customer-facing businesses see things from the customer's point of view. That's why we hire for attitude and train for skill. We over-invest in our people. And at the centre of the million little things they do for our customers, you'll find our culture.

"We're all part of the Revolution."

EMPOWERING COLLEAGUES
Our culture encourages colleagues to speak up in a variety of ways including our internal social media platform, Yammer, regular Revolution Update sessions with the Executive Leadership Team and annual colleague surveys.

DOGS RULE
Dogs, horses... even sheep! If it matters to you then it matters to us. So bring your dogs, kids, bikes; we'll make sure they're all well looked after.

ORGANIC MARKETING
FANS tell their friends to bank with us. That's what we call marketing.

SERVICE TARGETS
Service matters and that's how we create FANS. Our people act in the customer's best interest with our mantras of "one to say yes, two to say no" and "*no stupid bank rules*".

Case study

OUR COLLEAGUES HAVE THE M-FACTOR

Culture matters

AMAZEING VALUES

People want a purpose at work and our simple, compelling vision of creating FANS runs through everything we do at Metro Bank, whichever team you are in.

We also know that culture drives customer experience, so we hire for the right attitude and look for people who want to surprise and delight customers and create FANS.

We underpin all of that with fantastic training from our in-house Metro Bank University, which ran over 6,000 classroom courses last year.

Of course, our people need to be the most professional bankers too, so we provide the Chartered Banker qualification to all colleagues in our entry-level service roles.

We promote around 20–30% of our colleagues every year and always look for talent inside our organisation before we hire externally.

Attend to every detail

Make every wrong right

Ask if you're not sure – bump it up!

Zest is contagious, share it!

Exceed expectations

Inspire colleagues to create FANS!

Nurture colleagues so they grow

Game change because this is a revolution

Source: 2016 Voice of the Colleague Survey.

78% NET PROMOTER SCORE* 2016 AVERAGE

* An industry measure of customers' willingness to recommend us to others.

We have one question for anyone looking to join Metro Bank, "have you got the M-Factor?"

It's this special star quality we are seeking in every single person who joins the Bank, whatever their role. We hire for attitude and train for skill. If you can demonstrate a passion for the customer, are committed to doing the right thing and smile when you walk in the room, then we might be the career for you.

We ask all our customer-facing colleagues to take part in our "M-Factor" auditions. These events give us the chance to really get under the skin of the individuals hoping to join us and, more importantly, give them the opportunity to find out what it's like to work for the UK's first new high street bank in over 100 years. The audition involves role plays and interviews and helps us to find out how candidates would react in true to life scenarios.

We created the M-Factor auditions to mirror what it's like to be part of the Metro Bank family. Our hope is that candidates will be the perfect fit but we also focus on creating a fun and informative journey for them too. What we've found is that, even if they decide we're not the employer for them, they still leave as a FAN of the brand. After all, every candidate is a potential customer.

For those lucky ones who make it through the M-Factor, the audition is only the beginning. Every single new colleague – from Director to receptionist – takes part in our two-day cultural induction programme, "Visions". Visions immerses new colleagues in our culture, introduces our values and explains how we operate as a business fanatically focused on customers. Plus our CEO comes to every single Visions event to tell colleagues first hand why he started the Revolution and how he needs their help to create FANS.

fanatical execution is at the heart of our experience

Great retailers create fun experiences for their customers, turning them into FANS. Just because we are in the banking business, doesn't mean the experience can't be fun.

"We want stores where people live, work and play."

OPEN 7 DAYS
Stores open at a time to suit you, open early till late, seven days a week, 362 days a year.

PERSONAL ACCOUNTS OPENED IN MINUTES, NOT DAYS
Simply pop in, no appointment needed.

BUSINESS ACCOUNTS OPENED IN HOURS, NOT WEEKS
We'll have you set up and ready to go before you leave the store.

SAFE DEPOSIT BOXES AND MAGIC MONEY MACHINES
Instant access to safe deposit boxes and free coin counting. Because what else is a bank for?

All our FANS matter

RETAIL BANKING

We offer unparalleled levels of customer service and convenience. Pop into your local store and join the revolution – no appointment necessary and your account will be opened instantly, seven days a week.

- Simple savings and current accounts
- Debit and credit cards printed in store
- Mortgages
- Free coin counting
- Safe deposit boxes

PRIVATE BANKING

Simple is often best. The same can be said of our private products and services. We've designed them to get the job done for you quickly, easily and without fuss. No wealth management, no insurance – just banking. Our Relationship Managers are on hand to set up your banking just the way you like it.

- Specialist teams who understand your banking needs
- Personal service

BUSINESS BANKING

We're the entrepreneur's bank and we deliver quickly – without unnecessary bureaucracy. We've designed our Business Banking products and services to take the hassle out of everyday tasks. Straightforward and flexible finance to keep your business growing.

- Banking, deposit and lending products with no jargon
- Invoice and asset financing to help you grow your business and manage your cash flows

COMMERCIAL BANKING

A personal service tailored to your business. Exceptional banking service and support through all channels of banking with one dedicated banker to look after all of your banking needs, combined with simple and transparent lending where our underwriters meet our customers and understand their businesses.

- Commercial loans and cash management
- Instant, fixed term and tracker deposit accounts

Case study

INSTANT ACCOUNT OPENING AND DEBIT AND CREDIT CARD ISSUE IN STORE

Tangible delivery of our customer service proposition through our network of strategically located stores.

Metro Bank's innovative straight-through and real-time processing allows new and existing customers to open an account and receive a new or replacement card and PIN (and cheque book, if required) at the point-of-sale, with no need for second day follow-up.

With free wireless internet in every store, Metro Bank's customers are able to set up their mobile and online banking before leaving the store on the day of opening their account.

Over a million cards have now been printed in store in minutes. That is a million customers who have received their card and a PIN of their choice when they wanted it. Which other bank could do that?

if we're not in your area we will be soon

Location matters

Coming soon...

- Peterborough
- Luton
- Ilford
- Canterbury
- Clapham High Street
- Oxford
- Swindon
- Colliers Wood
- Liverpool Street
- Northampton
- Merry Hill
- Watford
- Birmingham
- Strand
- Leicester
- Enfield
- Bristol
- Solihull
- Wolverhampton
- Putney

Stores opened...

BRIGHTON

HOLBORN

KINGSTON

MAIDSTONE

MILTON KEYNES – OAKGROVE

READING

SLOUGH

SOUTHALL

WIMBLEDON

technology is at the heart of our service advantage

Our technology makes customer moments fast, simple and intuitive. Flexible, scalable IT systems provide us with the ability to design distinct customer experiences.

"Making our customers' lives easier through the use of technology."

APPLE PAY AND ANDROID PAY

Simple, secure and easy – Metro Bank customers can pay using Apple Pay®* and Android Pay using their debit or credit cards.

MOBILE BANKING

Our completely redesigned mobile banking app makes it easier than ever to check balances, make payments and manage your debit or credit cards.

ONLINE BANKING

Open new accounts, manage cards and browse transactions through our easy-to-use online banking platform.

CONTACT CENTRES 24/7

Real people answering the phone, 24 hours a day, 365 days a year.

* This Annual Report is an independent publication and has not been authorised, sponsored, or otherwise approved by Apple Inc.

Digital matters

DIGITAL. DESIGNED AROUND YOU

WHAT'S NEW?

- Best-in-class commercial banking platform
- Apple Pay and Android Pay mobile wallet payments
- Redesigned brand website with enhanced navigation and content management
- First UK retail challenger bank to join Faster Payments Scheme
- Upgraded mobile app for personal and small business customers

CUSTOMERS ON MOBILE APP

55%

CUSTOMERS REGISTERED FOR ONLINE BANKING

78%

WHAT'S NEXT?

- State-of-the-art online account applications, including "selfie" IDV
- Personalised mobile alerts with appropriate prompts to support customer financial management
- Market-leading fraud analytics platform via "behaviourmetrics"
- Bank-wide API layer to support client data requests and open banking revolution
- Begin build of stand-out packaged account proposition
- Begin build of market-leading personal and SME unsecured lending platform for use in store and online

Case study

CARD BLOCKING

When a customer misplaces their debit or credit card, why should they have to cancel it?

At Metro Bank we know how worrying it is when you think you've lost your bank card. We also understand how frustrating it can be when you find it again, just after cancelling it. That's why we offer our customers the ability to temporarily block and unblock their card via our banking app.

Just one swipe instantly allows customers to temporarily block their card. A second swipe – once they have the card back in their hand – instantly reactivates it. In the worst case, if the card is lost, it can be cancelled in just a couple of taps.

That's making our customers' lives easier through the use of technology.

CHIEF FINANCIAL OFFICER'S STATEMENT

building a bank to last

Mike Brierley – Chief Financial Officer

Overview

We have had another year of phenomenal growth. For the first time, Metro Bank made a month-on-month profit in the fourth quarter of 2016, driven by a strong increase in revenue from continued growth in customer balances. As we open new stores, the beneficial effect of our network continues to grow, resulting in a 66% increase in our lending book and a 56% increase in deposits.

Deposits

	2016 £m	2015 £m	Change %
Customer deposits	**7,950.6**	**5,107.7**	**56%**
Customer accounts	**915,000**	655,000	40%
Average deposits per customer	**£8,689**	£7,798	11%
Loan to deposit ratio	**74%**	69%	–

Deposits from customers have increased by £2,843 million to £7,950.6 million (2015: £5,107.7 million) as we continue to expand our store network and build brand awareness. Our focus on customer service has attracted a diversified mix of low-cost sticky deposits from both new and existing FANS. Through our range of simple and fair products, our average deposits per customer have risen 11% to £8,689 (2015: £7,798).

The Group drew down £1,614 million from the Bank of England's Funding for Lending Scheme and Term Funding Schemes.

In line with the Bank's strategy, the loan to deposit ratio has risen to 74% (2015: 69%). We continue to be focused on deposit growth in order to fund high-quality loans.

Assets

	2016 £m	2015 £m	Change %
Cash and balances with the Bank of England	**434.6**	217.9	99%
Loans and advances to banks	**65.8**	64.3	2%
Loans and advances to customers	**5,865.4**	**3,542.5**	**66%**
Investment securities	**3,226.7**	1,999.8	61%
Other assets	**464.8**	323.5	44%
Total assets	**10,057.3**	**6,148.0**	**64%**

Total loans have increased by 66% to £5,865.4 million at 31 December 2016 (2015: £3,542.5 million), driven by growth in the Commercial and Business Lending teams, new stores and continued expansion of Metro Bank's residential mortgage offering.

The 10% year-on-year growth in credit impairment charges (to £7.5 million) is significantly lower than total lending growth. This is a reflection of our robust underwriting criteria and focus on relationship management. Overall, the credit quality of the book remains robust, with 88% (2015: 92%) secured by collateral.

Total income

	2016 £m	2015 £m	Change %
Net interest income	**154.2**	88.9	74%
Other income	**40.9**	31.3	31%
Total income	**195.1**	**120.2**	**62%**
Net interest margin	**1.97%**	2.00%	(3)bps

Further details on net interest income and other income are included on page 88.

Total income increased by £74.9 million, or 62%, to a record £195.1 million (2015: £120.2 million), reflecting strong loan growth across all of our lending books and the maintenance of a low-cost of deposits. Net interest margin reduced by 3bps due to lending margin compression, combined with lower yields on the investment portfolio and also the one-off lag from the reduction in base rate. We expect the net interest margin to increase in 2017 as the loan to deposit ratio rises, and this is reflected in our Q4 2016 net interest margin of 2.03%.

Metro Bank's other income consists primarily of fees and commissions totalling £22.2 million (2015: £15.7 million), earned through our range of Commercial and Retail Banking services.

) this, £7.0 million was attributable to the rental of safe deposit ɔc‹es, an increase of 33% compared to 2015 (£5.3 million).

Operating expenses

	2016 £m	2015 £m	Change %
Operating expenses	**207.6**	170.0	22%
Cost:income ratio	**106%**	141%	–

Further details on operating costs are included in notes 6 and 7 to the financial statements.

Total operating costs increased by 22% to £207.6 million (2015: £170.0 million) as we continued to invest in our business to deliver customer service and convenience integrated across all our channels. People costs were the largest single contributor to costs, rising 25% to £93.2 million (2015: £74.4 million), to support growth, expanding our specialist support functions and adding eight new stores, as well as a 16% increase in occupancy costs to £26.1 million (2015: £22.6 million).

The cost:income ratio improved to 106% (2015: 141%) as the Group moves closer towards full-year profitability. This improvement has come through growth rather than cost-cutting, as we continue our investment in strengthening the capacity of our business and our customer offering.

Contribution from stores

As we have expanded, the contribution of new and existing stores has continued to increase. New stores open with higher deposits and grow faster as each annual cohort benefits from a more powerful network effect and organisational learnings.

Comparative store deposit growth demonstrates that our growth continues year after year and is strong at 51% for stores over 12 months; 45% for stores open over 24 months; and 44% for stores open over 36 months.

Store contribution is an important measure in understanding the success of our model. At the end of 2016, 40 of the 48 stores were making positive contributions, including all stores that have been open more than 18 months.

New share issue

In March 2016, Metro Bank successfully completed a £400 million equity capital raise from existing and new shareholders at a price of £20 per share. This took the total amount of equity capital raised from shareholders since inception to over £1 billion. Metro Bank was admitted to the premium listing segment of the Official List and to trading on the Main Market of the London Stock Exchange on 10 March 2016.

Capital structure

	2016 £m	2015 £m	Change %
Common Equity Tier 1 (CET1) Capital	**651.4**	299.9	117.2%
Risk weighted assets (RWAs)	**3,590.4**	2,261.2	58.8%
CET1 ratio	**18.1%**	13.1%	500bps
Regulatory leverage ratio	**6.5%**	4.9%	160bps
Leverage	**8.0%**	6.6%	140bps

Capital is held by the Bank to protect depositors, cover inherent risks and provide a cushion in the event of a stress event.
Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements. The £400 million capital raise enabled us to continue our growth trajectory through 2016; our CET1 ratio of 18.1% (2015: 13.1%) is well in excess of regulatory requirements.

Conclusion

Metro Bank has had a strong 2016, with the Group delivering a robust performance. Higher lending and deposit volumes and strong cost control, despite continued investment in technology, stores and colleague training, further improved the Bank's bottom line. Going forward, the Group is well positioned to deliver sustainable growth and profitability, based on a low-risk operating model, while maintaining our unique culture and focus on customer service and FAN creation.

Mike Brierley
Chief Financial Officer
2 March 2017

growing metro bank safely and sustainably

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, principal risks and uncertainties the Bank faces are:
- strategic risk;
- credit risk;
- market risk including interest rate risk;
- liquidity risk;
- conduct risk;
- compliance and regulatory risk;
- operational risk; and
- financial crime.

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 reporting and managing 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 its 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 training and management standards and procedures, the Bank aims 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 leading the Risk function, which is independent from the Bank's operational and commercial functions. She 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. The CRO is also responsible for providing assurance to the Board and Directors that the principal risks are appropriately managed and that the Bank is operating within its risk appetite. The CRO has access and a dotted reporting line to the Chairman of the Risk Oversight Committee.

The Bank operates a model with three lines of defence for risk management:
- The first line of defence is operational management, managing 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, providing governance and oversight for all significant risk categories, such as credit risk, compliance and conduct risk, operational risk, market risk, interest rate risk and liquidity risk.
- The third line of defence is Internal Audit, providing independent assurance through Internal Audit reviews, the results of which are reported to the Audit Committee.

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

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

Strategic risk
Strategic risk is the risk that Metro Bank fails to achieve short and long-term business objectives because of a failure to maintain its unique culture; maintain its differentiated model through delivering unparalleled levels of service and convenience; or develop the products, capabilities, and competitive position necessary to attract new customers, compete effectively and withstand market volatility. This could result in a failure to create FANS or to deliver outcomes expected by stakeholders (customers, colleagues, shareholders, investors, communities and regulators).

The Bank manages this risk through frequent consideration of a broad range of management information and key performance and risk indicators at Business Risk Committees, the Executive Leadership Team and the Board. The Bank also conducts regular reviews of performance against the business plan – also at the Executive Leadership Team – and these will provide early warnings of where plan delivery is at risk.

Credit risk

Credit risk is the risk of financial loss due to an obligor's failure to meet the terms of any contract or failure 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 CRO, Credit Sanctioning Committee, Credit Policy and Appetite Committee and the Risk Oversight Committee.

The CRO 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 and market liquidity (for investment securities).

The Bank aims to have a well-balanced loan portfolio, through the economic cycle, weighing 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 also 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. The Bank is in the process of developing more sophisticated internal models in order to seek regulatory approval to apply the Advanced Approach to the calculation of credit risk exposures in due course.

Market risk

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

Day-to-day management of market risk is the responsibility of the Treasury team with oversight from Treasury 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 through Asset and Liability Management Committee ("ALCO") and regular Treasury reporting.

The Bank does not sell derivatives or other complex products to customers.

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, or will incur a disproportionate cost in meeting said obligations.

The Bank aims to hold a prudent level of liquidity to cover unexpected outflows and ensuring it would be able to meet financial commitments for an extended period. Recognising the potential difficulties in monetising certain assets, higher-quality targets for liquid assets are set for the initial part of a stress 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. As well as cash and balances at the Bank of England, the Bank holds a range of marketable assets, including covered bonds and government debt, which are highly liquid assets. 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 this policy and its implementation to the ALCO. The Treasury team manages the Bank's liquidity position on a day-to-day basis under the oversight of the Chief Financial Officer and ALCO. Detailed daily management information is circulated to the Treasury team and relevant members of the Executive Leadership Team regarding the outcome of the Bank's combined stress-test scenario. The Bank's approach is to ensure that it can meet payments as they fall due – in both 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 the Bank's operating model, culture or actions result in unfair outcomes for customers. Effectively managing risks that may impact our customers is a priority for the Bank, which manages conduct risk consistently with its overall risk appetite and aligned 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 business conduct that may result in unfair outcomes for its customers.

The Bank has a range of controls in place to mitigate this risk. There are advantages inherent in the combination of its transparent, service-led business model and absence of legacy issues. The simplicity of the Bank's product range and its culture of delivering unparalleled levels of service and convenience to its customers help to ensure the consistent delivery of fair customer outcomes. This has resulted in a low level of reportable complaints, which is below the industry average. The Bank constantly analyses the root cause of complaints and underlying trends to identify opportunities to improve service provision while delivering consistently fair outcomes for its customers.

RISK FACTORS AND MANAGEMENT CONTINUED

Compliance and regulatory risk
Compliance and regulatory risk is the risk of financial loss or reputational damage due to regulatory sanctions such as fines or penalties, restriction or suspension of business, or the 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 that compliance with regulatory requirements is maintained. The Bank allocates appropriate resource to ensure that it continues to achieve regulatory compliance.

Operational risk
Operational risk is the risk of direct or indirect impact from failed or inadequate processes, people or systems, or exposure to external events. The impact can be financial or non-financial in nature. Non-financial impact includes customer detriment, regulatory action or reputational consequences.

The Bank aims to maintain robust operational systems and controls and to be able to respond to unexpected events in an organised and timely manner though rigorous planning and testing. Each business line undertakes an assessment of key risks and risk exposures. Each risk exposure is assessed to determine the appropriate controls. In addition, the three lines of defence model is used: firstly, business owners own and manage risks and controls; the second line sets standards and defines tools to be used to manage risk; and the third line provides independent assurance over the other two lines of defence.

The implementation of this approach takes the form of the first line of defence maintaining a risk and control self-assessment for each business area, recording that area's risks rated by impact and likelihood, before and after taking into account any mitigating controls.

Cyber security
Cyber-crime continues to pose a significant threat to the financial services industry as a whole and the Bank has invested in technology and expertise to strengthen defences in this area. A dedicated Information Security team is responsible for leading the work in this area, including anti-phishing, data loss prevention and overseeing patching of the IT estate.

The Bank partners with industry-leading experts to ensure that any risk management approach is robust and proportionate, and evolves in line with developing threats.

The Bank is a member of several industry forums that share threat intelligence, enabling it to keep abreast of external developments that carry the potential to affect operations. The Bank also collects intelligence and assesses its exposure, leading to the implementation of preventative measures. It continues to invest in cyber security.

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 (including 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's growth plans continue and it is dedicated to maintaining a robust control environment that enables it to respond effectively to emerging financial crime threats, which are becoming more frequent, more varied and more innovative. The need to protect Metro Bank, its customers, assets and society from the impact of financial crime has never been more challenging. The Bank constantly reviews its internal systems and processes to ensure they provide adequate protection against new and emerging threats. It has induction and training programmes for Metro Bank colleagues covering all aspects of financial crime to support them in protecting customers and assets.

The Bank has adopted a robust framework. It assesses and monitors risks in relation to customers, relationships, transactions and payments, with the purpose of ensuring there are tailored, risk-based systems and controls in place to manage potential risks, and avoid losses, reputational impacts or degradation of customer experience.

Through the three lines of defence model the Bank addresses the oversight and monitoring of the systems and controls through the following key areas: (i) the Bank's risk and control self-assessment; (ii) dedicated, specialist colleagues operating the systems and controls in the first line of defence, overseen by the second line Anti-Money Laundering ("AML") Risk team; and (iii) Internal Audit. In addition, key risk indicators are in place with regular reports through the appropriate Bank Committees and the Board.

The Bank has made significant investment to enhance systems, controls and people to support the execution of its business strategy and to ensure it has robust and sustainable models as it grows. This includes the implementation of a new monitoring and surveillance system for anti-money-laundering, counter terrorist financing and sanctions. The Bank anticipates further enhancements over the coming months as result of significant change in financial crime regulation.

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

Compliance and competition regulation
Increased use of market studies as a regulatory tool is likely, following the market studies on cash savings and credit cards. The Bank's key risk mitigation in this respect is to continue to place the customer at the heart of its business.

Key areas of regulatory focus affecting the Bank in 2017 include the Payment Services Directive and the remaining requirements under the Senior Managers and Certification regimes. Other domestic initiatives captured in the Financial Conduct Authority's ("FCA") Mission Statement include an increased focus on vulnerable customers, behavioural economics, pricing for risk and a planned ageing population strategy.

Further studies from the FCA and Competition and Markets Authority are likely to be announced as the year progresses. Digital channels, cyber risk and systems infrastructure and resilience are likely to remain high on the regulatory agenda, as will changes to the macroeconomic environment.

Financial crime prevention
To tackle money laundering and corruption and recover the proceeds of crime and counter terrorist financing, the Anti Money Laundering Directive IV is due to take effect in July 2017 and The Criminal Finances Bill is being considered by Parliament.

Prudential regulation
The Bank of England will be phasing in the setting of a minimum requirement for own funds and eligible liabilities ("MREL"). This is applicable to all UK banks and full compliance must be in place by 2022. The Prudential Regulatory Authority ("PRA") has also introduced new underwriting standards for buy-to-let mortgage contracts which came into force in part in January 2017, with the remainder in force in September 2017.

Changes to data protection legislation
These will result in increasing regulatory scrutiny on the Bank's data processing activities. Metro Bank is investing significantly in a Bank-wide General Data Protection Regulation ("GDPR") implementation project which commenced in January 2017.

Growth
The pace of growth experienced by Metro Bank has the potential to increase operational risk. As a result, the Bank has invested heavily in people and infrastructure to meet this challenge. Metro Bank's superior customer experience is supported by an end-to-end technology infrastructure that provides a single customer view, allowing enhanced customer service and colleague efficiency. Metro Bank's technology stack enables colleagues to focus exclusively on creating a great customer experience. The Bank uses that technology to simplify and accelerate customer processes.

Data integrity and systems resilience
Reliance on systems infrastructure is growing, with any weaknesses causing a greater impact. The Bank will continue to invest to ensure it meets all applicable and new standards and uses third parties that ensure a high level of protection and resilience. The creation of a Chief Data Officer in 2016 was designed to ensure that an appropriate framework and controls are in place to manage the increasing risks associated with data management.

Digital
Internet and mobile technologies are changing the way banks interact with customers and increasing our reliance on technology and infrastructure. Metro Bank is investing in its digital platforms and building resilient and secure technologies. Technological evolution will require the Bank to continue to be vigilant from a security perspective, and also to assess and review our conduct approach on an ongoing basis.

Changes in accounting standards
The new reporting requirements under International Financial Reporting Standards 9 introduce new credit loss models, and a programme to deliver models and policies/standards to fulfil the requirements is underway.

Political changes
The political environment in the UK, Europe and on a global scale impacts Metro Bank's operations. Recent political developments, including Brexit, have an as yet unknown impact on the way the Bank operates and serves customers.

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

Vernon W. Hill, II
Chairman
2 March 2017

VIABILITY STATEMENT

In accordance with provision C.2.2 of the revised UK Corporate Governance Code, the Board has assessed the prospects of the Group and Parent Company over a longer period than the 12 months that has in practice been the focus of the "going concern" provision.

Whilst the Bank prepares a forecast spanning a seven year period, the Directors concluded that a four-year period was appropriate for the assessment, as it is the period over which the financial forecasts have greatest certainty, and is in line with the period management consider when determining the 2020 vision for the Bank. These forecasts are updated annually and reflect the Group's established strategy of creating FANS through our unique culture and integrated model of stores and technology, in order to raise low-cost, sticky deposits and low-risk diversified lending.

Key assumptions included in the model include store, deposit and lending growth, as well as remaining appropriately capitalised. Over the forecast period, we expect to raise debt to fund our anticipated growth.

Forecasts were subject to appropriate downside stress and sensitivity analysis over the assessment period, taking account of the Group's current position, the Group's experience of managing change and the impact of a number of severe yet plausible scenarios, based on the principal risks outlined in the Risk factors and management section of this report (page 24 to 27 of the Annual Report).

Based on the results of this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

engaging with our colleagues...

Our colleagues
Our colleagues are our culture and they are the people who create our FANS. Being a great employer and hiring and developing fantastic people is core to who we are and helps Metro Bank stand apart from the rest.

For this reason, we are extremely proud that our CEO, Craig Donaldson, was Glassdoor's most highly rated UK CEO for 2016, with a 99% approval rating in its Glassdoor Employees' Choice Awards. Our Chief People Officer, Danielle Harmer, was ranked #30 among 2016 Most Influential HR Practitioners by HR, as well as being named in the 2016 Leading 50 Ally Executives by OUTstanding.

Metro Bank employs c.2,500 permanent colleagues. Over the year we have created over 500 new roles, and we've promoted over 500 colleagues. We focus all our colleagues on creating FANS and building Metro Bank for the long term, by hiring for attitude and training for skill, aligning our people to a simple purpose and making our colleagues owners through our share schemes.

Metro Bank actively fosters two-way communication with colleagues in a number of forums, from our social media platform, Yammer, to the regular "Revolution Updates", held face-to-face between the leaders and colleagues from across the business.

We also run our annual Voice of the Colleague engagement survey, which over 90% of colleagues responded to in 2016. The outputs of the survey, including sophisticated text analytics, are used to inform continuous improvements in every aspect of our colleagues' experiences. We also benchmark our scores against leading companies.

The headlines from our 2016 survey were:
- 97% of our people understand how their role contributes to the overall success of Metro Bank;
- over 94% of colleagues feel encouraged to "bump up" (escalate) issues;
- 94% of colleagues think that Metro Bank is a great place to work;
- more than 91% of our people recommend Metro Bank's products and services to their friends and family;
- over 87% believe there are opportunities for career progression and promotion; and
- 87% would recommend Metro Bank as an employer to their friends and family.

We are also committed to hiring apprentices across the Bank. To date, we have hired 52 apprentices and plan to bring in a further 30 apprentices this year.

Culture and diversity

We value people from all backgrounds, and have an inclusive approach that celebrates diversity. Our colleague base is representative of the communities we serve. We know that our inclusive culture helps us to attract, retain and develop fantastic colleagues and encourages them to bring their whole selves to work.

We are also proud that our Black, Asian & Minority Ethnic ("BAME") mix is representative of the communities we work in, with our BAME colleagues represented throughout the Bank.

Asian British	23.06%
Asian Other	6.11%
Black British	8.97%
Black Other	2.33%
Mixed British	2.25%
Mixed Other	1.87%
White British	39.60%
White Irish	0.50%
White Other	8.67%
Undisclosed	6.64%

Gender representation

Gender mix as at 31 December 2016:

- Directors reporting to CEO (Executive Leadership Team): 56% male/44% female.
- Senior managers reporting to Executive Leadership Team (Executive): 68% male/32% female.
- Total colleagues: 57% male/43% female.

Case study

MR, MRS AND NOW MX

In November, we were the first high street bank to give colleagues and customers who do not identify with a specific gender the option to choose Mx as a title.

We also introduced the choice of non-binary as a gender. This simple change was an opportunity to drive forward equality and take an active stance on an issue that is highly personal to a number of our FANS. Our "no stupid bank rules" approach meant Metro Bank was able to remove a barrier that had left some colleagues and customers feeling alienated and unrecognised.

...and the communities we serve

Our communities
We are an active member of the communities we serve and during 2016 we hosted more than 2,000 local events, from business networking and taking Metro Bank into businesses, through to financial education workshops, seasonal activities like pumpkin carving and Christmas crafts for kids, and store Grand Openings.

We continue to partner with Battersea Dogs and Cats Home and children's charity Place2Be. Place2Be helps children and young people in primary and secondary schools to build mental health resilience, and underlines Metro Bank's commitment to the wellbeing of children and young people in the UK. Both charities, along with Alzheimer's Research UK, receive customer donations via our Magic Money Machines.

Throughout 2016 our colleagues took part in a number of events and money-raising initiatives. Every colleague at Metro Bank is given a day a year to support community and charity causes that are important to them, through Metro Bank's *Days to Amaze*. *Days to Amaze* in 2016 ranged from school career days to charity car washes and abseiling. We also raised £40,000 for The Prince's Trust via the Million Makers initiative.

We continue our relationship with Fulham Football Club, as its community banking partner. The partnership allows us to offer a number of our customers the opportunity for their children to join a specialist football skills programme with Fulham FC coaches and to see a game with their family.

Our impact on the environment
It is our responsibility to manage our environmental footprint and reduce our impact where possible.

Greenhouse gas (GHG) mandatory disclosure
We have reported on our emissions in line with the requirements of the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013.

Summary table of GHG emissions for 2016

GHG emissions	Tonnes CO_2e
Scope 1 emissions	1,160
Scope 2 emissions	5,044
Total Scope 1 and Scope 2 emissions	6,204
Number of FTE at 31 December 2016	2,417
Total Scope 1 and 2 emissions per FTE	2.57

This is our first year of reporting, which also forms our baseline year, running in conjunction with our financial year, 1 January 2016 to 31 December 2016.

Metro Bank has chosen operational control as our consolidation approach and our boundary includes all entities and facilities either owned or under our operational control.

The methodology used to calculate our CO_2 (equivalent) emissions is the operational control approach on reporting boundaries as well as utilising the carbon emissions methodology as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol (GHG): A Corporate Accounting and Reporting Standard, Revised Edition.

Where properties are covered by Metro Bank's consolidated financial statements but are leased to tenants who are invoiced for utilities, these emissions are not included in the GHG calculations. For properties where Metro Bank is the tenant, the landlords of these properties provide Metro Bank with utility bills which are included in our emissions reporting.

Scope 1 covers direct combustion of fuels, predominantly mains gas, fuel use within Company-owned vehicles and hire cars, as well as refrigerant use and associated fugitive emissions.

Scope 2 covers the emissions from electricity purchased for own use.

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

Craig Donaldson
Chief Executive Officer
2 March 2017

Case study

IT'S ALL ABOUT THE MONEY

Metro Bank is passionate about the communities we serve

We established Money Zone in 2011, an education programme for children and young people that introduces them to financial skills and helps them understand how money, saving and banking work.

In 2016, we hosted over 800 sessions, reaching over 24,000 young people. Aimed at students in Years 4 and 5 (Key Stage 2) our colleagues deliver the programme over four sessions split between the classroom and our stores. With a full range of resources, notes and activities, it has proven a valuable support for teachers in educating their pupils in this important area of finance. Becoming a "Money Zone Prefect" is a highlight for colleagues and a great opportunity to share our culture. This engaging approach has led to a growing cohort of young people who are financially literate and prepared for their financial future; and is just another way Metro Bank works at the heart of every community it serves.

BOARD OF DIRECTORS

Vernon W. Hill, II
Chairman and Founder[3]

Vernon was the founder and Chairman of Commerce Bancorp, a start-up bank established in 1973 and sold to Toronto-Dominion Bank in 2007 for US$8.5 billion, with US$50 billion in assets and 440 branches. Vernon is involved in banking and non-banking related businesses and voluntary ventures in the US. He is currently Chairman of Republic First Bancorp, inc.

Craig Donaldson
Chief Executive Officer

Craig was previously Managing Director, Retail Products and Direct Channels, of RBS UK. He was also Chairman of the Retail Asset and Liabilities Committee and Retail Product Board and a member of the Retail Board, Retail Risk Committee and RBS UK Asset & Liabilities Committee. He is a member of the Banking Standards Board and also serves on the Board of Directors at TheCityUK as Chairman of the Audit and Risk Committee.

Michael Brierley
Chief Financial Officer

Mike was previously Director, Business Risk, at Barclaycard. He has also worked at Capital One Bank (Europe) as Chief Financial Officer UK & Europe and Chief Risk Officer. He was Chief Financial Officer for Royal Trust Bank, Financial Controller at Industrial Bank of Japan and Chief Financial Officer of Gentra Limited. He is a Fellow of the Institute of Chartered Accountants.

Alastair (Ben) Gunn
Senior Independent Director[4]

Ben was Chief Executive and, more recently, Chairman of Friends Provident Life and Pensions Ltd and a Director of Friends Provident. As Chief Executive, he was responsible for all aspects of the Friends Provident Group's life and pensions activities worldwide. More latterly, he was the Senior Independent Director at Aviva UK and Chairman of the Audit Committee at Avelo.

Stuart Bernau
Non-Executive Director[1,4]

Stuart has specialised in financial services for over 40 years, including 13 years as a main Board Director of Nationwide Building Society. He was Chairman and CEO of Chelsea Building Society and has chaired the Council of Mortgage Lenders and the Financial Services Sector Skills Council. He was Special Adviser to the Treasury Select Committee from 2013 to 2015.

Committee membership

1 Member of the Audit Committee.
2 Member of the Remuneration Committee.
3 Member of the Nomination Committee.
4 Member of the Risk Oversight Committee.

Gene Lockhart
Non-Executive Director[1,4]

Gene is a Special Adviser to General Atlantic and Chairman and Managing General Partner of MissionOG LLC. He was President and CEO of MasterCard Worldwide, and subsequently President of the Global Retail Bank at Bank of America. Prior to this, Gene was the CEO of Midland Bank UK and Chairman of First Direct and Thomas Cook.

Lord Flight
Non-Executive Director[2,3]

Howard was Conservative MP for Arundel and South Downs, West Sussex, from 1997 to 2005, when he held Shadow posts, including Shadow Chief Secretary to the Treasury. He was a member of the Shadow Cabinet from 2002 to 2004. He was appointed to the House of Lords in 2011. He co-founded Guinness Flight Global Asset Management, and is Chairman of CIM Investment Management, Downing Four VCT and Flight and Partners, a Director of Investec Asset Management, Aurora Investment Trust and Commissioner of the Guernsey Financial Services Commission.

Keith Carby
Non-Executive Director[1,2,3]

Keith is CEO of the Caerus Capital Group and Non-Executive Chairman of Foster Denovo. He was Joint Founder and Managing Director of J. Rothschild Assurance (now St. James's Place), founded the Financial Services Forum and was a founding trustee of the 9/11 London Project.

Roger Farah
Non-Executive Director[2,3]

Roger is a former Executive Vice Chairman of Ralph Lauren Corporation, also its President and Chief Operating Officer. Roger was previously Chairman and CEO of Footlocker, President and Chief Operating Officer of Macy's, Chairman and CEO of Federated Merchandising Services and Chairman and CEO of Rich's Department Stores. Roger is a Director of Aetna and The Progressive Corporation.

Sir Michael Snyder
Non-Executive Director[1,4]

Michael was Senior Partner of Kingston Smith between 1979 and 2016, and is now a Consultant to the firm. He has advised Government over many years including Chairing the National Business Angels Network and as a Member of the Small Business Council and Small Business Investment Taskforce. He was also founder Co-Chairman of the Governments Professional and Business Services Council and chaired the Association of Practising Accountants. He is Chairman of GLE Loan Finance and Senior Partner of Bramdean Consultants LLP and an elected member of the City of London Corporation which he led for five years as Chairman of the Policy and Resources Committee.

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report for the year ended 31 December 2016. As set out more fully in the "Summary of significant accounting policies" within "Notes to the financial statements, 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 and includes the Corporate Governance Report set out on pages 38 to 42.

Principal activities
Our principal activities during 2016 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 and Markets Act 2000, has a Consumer Credit Act licence and is a member of the Financial Services Compensation Scheme.

Directors
Directors that have served during the year and summaries of the current Directors' key skills and experience are set out on pages 32 to 33.

Results and dividend
The results for the year are set out in the Consolidated statement of comprehensive income on page 74.

No dividend was declared or paid during 2016 (2015: £nil). The Directors do not anticipate declaring a dividend in the near future.

Significant events
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 £400 million. The Company's shares were admitted for trading on the London Stock Exchange on 10 March 2016.

Articles of Association
The Company's Articles of Association can be found on the Company's website www.metrobankonline.co.uk.

Share capital
The called up share capital of the Company, together with details of shares allotted during the year, is shown in note 17 to the financial statements on page 97.

Directors' interests
Details of the Directors' beneficial interests are set out in the Remuneration Report on pages 52 to 67.

Directors' indemnities and Directors and Officers Liability insurance
Details regarding deeds of indemnity and Directors and Officers Liability insurance are set out in the Corporate Governance Report on page 42.

Major interests in shares
Information provided to the Group by substantial shareholders pursuant to the Disclosure and Transparency Rules ("DTR") is published via a Regulatory Information Service.

As at 31 December 2016, the Group has been notified under DTR 5 of the interests in its issued share capital, as set out in the table opposite. All such share capital has the right to vote in all circumstances at general meetings.

As at 31 December 2016	Ordinary shares held	% of total ordinary shares	Direct/indirect interest
Cohen Private Ventures	7,912,848	9.85	Indirect
Wellington Management Group LLP	7,546,661	9.39	Indirect
Fidelity Management and Research	6,850,023	8.53	Indirect

In the period from 31 December 2016 to the date of this report, the Group has received notifications from Wellington Management Group LLP confirming a holding of 3,641,556 shares representing 4.53% of total voting rights.

Greenhouse gas emissions

The Company's energy consumption and associated greenhouse gas emissions during 2016 are set out in the Strategic report on pages 30 and 31.

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 and/or, share pool schemes.

Diversity

Metro Bank is committed to employment policies which follow best practice, based on equal opportunities for all employees. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is a key part of a responsible business strategy and also supports a strong customer experience. Metro 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 employees becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training and support 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.

Modern slavery

We are committed to supporting the communities in which we operate in order to enable them to develop both socially and economically. We are supportive of the Modern Slavery Act 2015 and we will report on our progress in our 2017 Annual Report.

Financial risk management

The Directors confirm that they have undertaken a robust assessment of the principal risks facing the Group. 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 Factors and Management Report on pages 24 to 27. 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 Factors and Management Report.

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.

Viability Statement

The Bank's Viability Statement is set out on page 27.

Auditors

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the Annual General Meeting.

Political donations

Metro Bank made no political donations in the year ending 31 December 2016 (2015: £nil).

Research and development

Metro Bank has an ongoing commitment to make banking more convenient for its customers and in 2016 has continued to invest in systems, procedures, products and services, and as a result has capitalised £45 million of intangible assets.

DIRECTORS' REPORT CONTINUED

Post balance sheet events
A summary of the key post balance sheet events is set out in note 32 to the financial statements.

Annual General Meeting
Details of next year's AGM can be found in the Shareholder Information section on page 110 of this Report.

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

Listing rule disclosures
For the purposes of LR 9.8.4CR, the information required to be disclosed by LR 9.8.4R can be found in the following sections of the report:

Item	Location where applicable
Detail of long-term incentive schemes	Remuneration Report Financial statements note 18
Contracts of significance	Financial statements note 27

Corporate Governance Statement
The Corporate Governance Report on pages 38 to 42 in accordance with Rule 7.2 of the Disclosure and Transparency Rules and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' Report.

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 and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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; and
- 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the disclosure and transparency rules
Each of the Directors, whose names and functions are listed on pages 32 and 33, confirm that, to the best of their knowledge:
- The financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to Auditors

Each of the Directors who is in office at the date of this Report, and whose name is listed on pages 32 and 33, confirms that to the best of his knowledge:

- there is no relevant audit information of which the Company's Auditors are unaware; and
- has taken all the reasonable 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 the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors' Report comprising pages 34 to 37 has been approved by the Board of Directors of Metro Bank PLC and signed on its behalf by

Mike Brierley
Chief Financial Officer and Company Secretary
2 March 2017

CORPORATE GOVERNANCE REPORT

An introduction from our Chairman

A strong governance framework supporting the long-term success of the Company

In this section of our inaugural Annual Report as a listed company we have set out our approach to corporate governance and provide further information on how the Board and its Committees operate.

Metro Bank's ordinary shares were admitted to trading on the Main Market of London Stock Exchange on 10 March 2016, and, as a company with a premium listing, we are required to comply with the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in September 2014 ("the Code") or to explain any areas of non-compliance and our reasons for these.

We have also taken into account the updated UK Governance Code published by the FRC in April 2016 and the changes relating to Audit Committees. We believe we already comply with these changes and will report on them fully in next year's Annual Report. Prior to Listing, we were already required to operate under the strong regulatory framework applicable to the financial services sector in the UK and this had fostered a strong compliance culture throughout our team of highly-motivated and engaged colleagues. At Listing we had already taken sufficient steps to confirm that we were fully compliant with the Code and we continue to review and strengthen our governance framework to ensure that it continues to support the long-term success of the Company.

As a Board, we support management and help develop strategy through effective debate and challenge. I set the Board's agenda and ensure that we devote sufficient time to our strategic vision. The Board has an open culture which encourages challenge, and we have the appropriate mix of skills and experience to be effective. All Non-Executive Directors are independent and, by encouraging open and frank discussion, we ensure that no individual Director or group of Directors can dominate discussion or decision-making. The Board members' experience is across a wide range of sectors, including finance, banking and retail, and each brings a wealth of experience and skills to bear on all aspects of the management of the Company.

Biographical details for all Directors, which include a summary of their particular experience, skills and qualifications, are set out on pages 32 and 33 of this Report. Senior management are regularly invited to attend Board and Committee meetings to present and this provides further opportunities for communication, challenge and support between the Board and management.

I am pleased to report that during the period under review the Company has fully complied with the Code.

Vernon W. Hill, II
Chairman
2 March 2017

LEADERSHIP

The role of the Board
The Board is responsible to the Company's shareholders and sets the Bank's strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Bank.

The composition of the Board
The Board currently consists of the Non-Executive Chairman, two Executive Directors (the CEO and CFO) and seven Non-Executive Directors. The Company considers the Non-Executive Directors to be independent. This is compliant with the Code, which requires that at least half of the Directors of a premium listed company should be independent and free of any business relationships that could compromise the exercise of independent and objective judgement.

Each Director has committed to dedicate as much time as is necessary to the Company and the Non-Executive Directors' letters of appointment set out that they should be prepared to dedicate at least 20 days per year to the Company.

Division of responsibilities between the Chairman and Chief Executive Officer
The Board has formally documented the separate roles and responsibilities of the Chairman and Chief Executive. Vernon W. Hill, II, the Chairman, leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Company and ensures the links between the Board and management and between the Board and shareholders are strong. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction.

Craig Donaldson, the Chief Executive Officer, is responsible for the day-to-day management of the Bank's operations, for recommending the Bank's strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported in decision-making by the Executive Leadership Team. A summary of the key areas of responsibility of the Chairman and the Chief Executive Officer is set out opposite:

Division of responsibilities between the Chairman and Chief Executive Officer

ROLE OF CHAIRMAN

The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and the setting of the Board's agenda. His responsibilities are:

To run the Board effectively by ensuring meetings are scheduled well in advance and with appropriate frequency, and to ensure that the Board agenda is forward-looking and reflects the important issues facing the Bank.

To ensure the frequency and depth of evaluation of the performance of the Board and its Committees is in compliance with best practice and appropriate action, if required, is taken on the results of any such evaluation and to confirm that an individual's performance continues to be effective.

To ensure, with the support of the Nomination Committee, an appropriate balance is maintained on the Board as regards the number of Executive and Non-Executive Directors with the skills, experience and expertise to provide effective guidance, challenge and oversight to the Board and the Executive Leadership Team.

To ensure there is appropriate delegation of authority from the Board to the Executive Leadership Team.

To promote a Board culture with an open exchange of views, challenge and debate, in particular by facilitating the effective contribution of Non-Executive Directors; and ensuring constructive relations between Executive and Non-Executive Directors that provides a genuine check and balance on the Executive Directors and holds them accountable.

To ensure, with the support of the Company Secretary, compliance with Board-approved procedures, such as the Terms of Reference for the Board, including its Committees, incorporating the matters reserved to the Board and the Terms of Reference of each of the Board Committees, and to ensure that they are reviewed by the Board at least annually.

To maintain a dialogue with the Chief Executive Officer and to provide support and advice from time to time on the implementation of the business strategy agreed by the Board, as well as important issues facing the Bank.

To ensure that the Board reviews all key metrics in line with the agreed business plan and ensure that stressed scenarios are always in place to support prudent capital planning, liquidity, solvency, recovery and resolution and risk management generally.

To provide advice, support and leadership to the Chief Executive Officer and guidance as appropriate to other key senior management across the business.

To ensure effective communication by the Bank with its shareholders and engage directly as required on matters of governance, remuneration and strategy with major shareholders.

To ensure that shareholders' views are communicated to the Board as a whole so that all Directors develop an understanding of their views.

To oversee the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of employees.

ROLE OF CHIEF EXECUTIVE

The Chief Executive Officer reports to the Chairman and to the Board directly and is responsible for all executive management matters of the Bank. His responsibilities are:

To develop and propose the strategy direction of the Bank, annual budget and business plans and commercial objectives to the Board.

To examine all major business investments and major capital expenditure and make recommendations to the Board and to identify and execute acquisitions and disposals subject to formal Board approval.

To ensure that the development needs of the Executive Directors and senior management are identified and met.

To advise and make recommendations in respect of management succession planning for the Executive Directors and ensure that the Bank develops strategies and makes plans for the succession and replacement of key personnel. To make recommendations on Remuneration policy, executive remuneration and terms of employment for the Executive Leadership Team.

To lead the Executive Leadership Team in the day-to-day management of the Group to pursue the successful achievement of the Bank's commercial objectives and execution of strategy and to ensure that Board decisions are implemented effectively.

To be open, honest and transparent and willing to engage in constructive challenge and debate with the Non-Executive Directors.

To ensure, with the support of the Company Secretary, that the Executive Directors comply with the terms on which matters are delegated by the Board and the Terms of Reference of Board Committees and to ensure matters outside the authority of the Executive Directors are escalated to the Board.

To ensure the Chairman is alerted to potential contentious or sensitive issues affecting the Bank.

To manage the Bank's risk profile, with the support of the Chief Risk Officer, in line with the risk appetite approved by the Board and to ensure that appropriate internal and prudential controls are in place, in particular with regard to capital and liquidity.

To maintain a dialogue with the Chairman and the Board on important and strategic issues facing the Bank.

To be the primary relationship with institutional shareholders and ensure effective communication with all shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to the Board where appropriate.

To be the primary contact with the Bank's regulators and to foster an open and honest relationship with the regulators and compliance with prudential and conduct requirements.

To oversee the development of Bank policies for Board approval and oversee the implementation of them including policies relating to insider information, share dealing, whistleblowing, anti-bribery and anti-money-laundering.

To promote a Bank culture that fosters a prudent, safe and sound business that has long-term sustainability and conducts itself with appropriate standards and behaviours, whilst placing customers at the forefront of everything the Bank does.

CORPORATE GOVERNANCE REPORT CONTINUED

Non-Executive Directors

The role of the Non-Executive Directors is to constructively challenge proposals on strategic direction. Each Non-Executive Director brings specific sector experience and knowledge to the Board and its Committees. Their contributions provide independent views on matters of strategy, performance, risk and conduct. The Non-Executive Directors have been appointed for an initial two-year term but are re-elected on an annual basis.

Senior Independent Director

Ben Gunn is the Senior Independent Director ("SID"). The SID's role is to act as a sounding board for the Chairman and to serve as an intermediary for Directors when necessary.

The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer. The SID will attend meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of their issues and concerns if contact with the Chairman, Chief Executive Officer or Chief Financial Officer is inappropriate. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chairman and conducts the Chairman's annual performance evaluation.

HOW THE BOARD OPERATES

Governance framework

The Board has a coherent corporate governance structure with clearly defined responsibilities and accountabilities designed to safeguard and enhance long-term shareholder value and provide a robust framework in which to deliver the Company's strategy.

Matters reserved for the Board

The Board is responsible for the Company's strategic direction and for its overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which is reviewed annually. These include matters relating to the decisions concerning the Bank's strategic aims and long-term objectives, the structure and capital of the Group, financial reporting and controls, risk management and various statutory and regulatory matters. The Board is also responsible for the effective communication with shareholders, any changes to Board or Committee membership or structure, and has authority to recommend to shareholders the Bank's Directors' remuneration policy. The Board delegates responsibility for day-to-day management of the business to the Chief Executive and sets out the basis for delegation of authorities from the Board to its Committees.

Board decisions and activity during the year

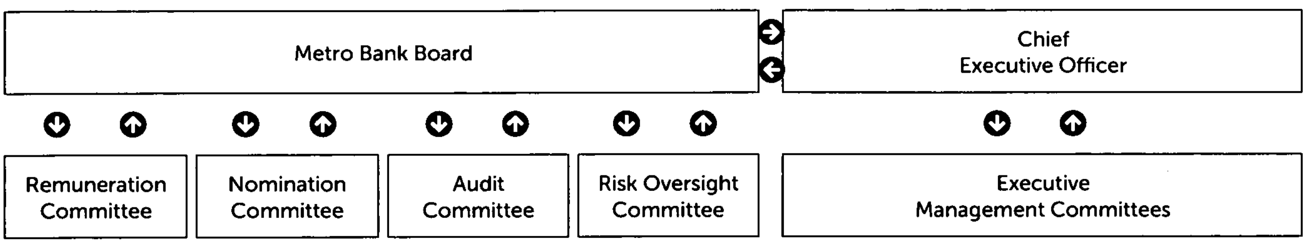
The Board has a schedule of regular business, financial and operational matters, and each Board Committee has a schedule of reserved matters to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year.

The Chairman, aided by the Company Secretary, is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and Committee papers, which are circulated to Directors in advance of meetings. The Company Secretary also ensures that any feedback or suggestions for improvement on Board papers is fed back to management. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted.

In the months following Listing some of the key areas the Board has focused on are:

- Strategic direction
- Risk monitoring and review
- Governance and compliance
- Annual and quarterly reporting
- Policy review and update
- Property and store expansion
- Investment proposals
- Regulatory and external affairs
- Creating FANs

Corporate governance structure



Board and Board sub-Committee.
Chief Executive Officer and Executive Management Committees.

Reports from the CEO, CFO and CRO are standing items on every agenda. The Company Secretary reports on legal, regulatory and governance matters and updates the Board on any changes to their statutory duties or the regulatory environment. The Chairman of each Committee reports on the proceedings of the previous Committee meeting at the next Board meeting.

Senior management and advisers are invited to attend Board and Committee meetings, where appropriate, to present, contribute to discussion and advise members of the Board or its Committees on particular matters. The involvement of senior management at Board and Committee discussions strengthens the relationship between the Board and senior management and helps to provide the Board with a greater understanding of operations and strategic direction.

Board Committees
The Board has delegated specific responsibilities to each of the Audit, Risk Oversight, Nomination and Remuneration Committees, and reports for each are set out on pages 43 to 51. Each Committee has written Terms of Reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee Terms of Reference are available on the Company's website www.metrobankonline.co.uk.

The Terms of Reference of each Committee were reviewed at Listing and are kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best-practice as well as being reviewed formally on an annual basis by the relevant Committee and the Board. Each Committee is comprised of Non-Executive Directors of the Company. Any future changes to the Committees will be made after the review and recommendation of the Nomination Committee.

Effectiveness
The skills and experience of the Board are set out in their biographical details on pages 32 and 33. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

Induction of new Directors
All the Directors have been members of the Board since the Company's Listing in March 2016. It is intended that, in the future, on joining the Board, new Directors will undergo a formal programme, tailored to the existing knowledge and experience of the Director concerned. Non-Executive Directors will meet the Chairman and the Chief Executive as part of the Nomination Committee's selection process and then again on appointment for a thorough briefing on all relevant aspects of the Company. They will also meet the Company Secretary, senior management and any relevant advisers for briefings on their responsibilities as Directors and on the Company's business, finances, risks, strategy, procedures and the markets in which the Company operates.

All Directors have been advised of the time required to fulfil the role prior to appointment and confirmed they can make the required commitment. This requirement is also included in their letters of appointment. The Board is satisfied that the Chairman and each of the Non-Executive Directors is able to devote sufficient time to the Company's business. There has been no change in the Chairman's other time commitments since Listing.

Performance
The Board will undertake an evaluation of its performance and that of its Committees and individual Directors annually, with an evaluation process being externally facilitated at least every three years. The first such external evaluation was carried out in 2014, facilitated by Deloitte. A number of recommendations for improvements were agreed by the Board. Overall, it was concluded that the Board operated effectively. The next externally facilitated evaluation will take place in 2017.

Board meetings

The Board met ten times in 2016.

Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. In the event that Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chairman or Company Secretary so that their contribution can be included in the wider Board discussion.

The following table shows Directors' attendance at Board meetings in 2016:

	Numbers of meetings attended
Vernon W. Hill, II	10/10
Craig Donaldson	10/10
Michael Brierley	10/10
Ben Gunn	9/10
Stuart Bernau	10/10
Gene Lockhart	8/10
Lord Flight	9/10
Keith Carby	10/10
Roger Farah	10/10
Sir Michael Snyder	8/10

CORPORATE GOVERNANCE REPORT CONTINUED

Development

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations, with the assistance of the Company's external advisers where appropriate.

Executive Directors take part in Metro Bank's appraisal procedure where tangible targets are set against which performance is measured.

Non-Executive Directors are encouraged to attend seminars and briefings, at the Company's expense, in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Committees on which they sit.

During 2016, the Directors received in-house training on the following areas:

- UK listing regime
- Regulatory developments in UK Corporate Governance
- Insider trading and implications under the new Market Abuse Regulations
- Anti-bribery, corruption and money-laundering
- Open banking and PSD2

Risk management

The Board believes that effective risk management is crucial to the Bank's strategic objectives and long-term success. The Board has overall responsibility for ensuring risk is effectively managed.

The Bank's approach to risk is further detailed on pages 24 to 27. The Risk Oversight Committee reviews the effectiveness of the risk management process on the Board's behalf, and its approach to this can be found in the Risk Oversight Committee Report on pages 47 and 48.

External appointments

In appropriate circumstances, the Board may authorise Executive Directors to take non-executive positions in other companies and organisations, provided the time commitment does not conflict with the Director's duties to the Company, since such appointments should broaden their experience. The appointment to such positions is subject to the prior approval of the Board.

During the year ended 31 December 2016, none of the Bank's Executive Directors held directorships in any other quoted company.

Conflicts of interest

At each meeting the Board considers Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

The Company has a commercial relationship with InterArch, Inc. ("InterArch"), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II. The Audit Committee has considered this relationship and concluded that the arrangements with InterArch are on terms which are at least as beneficial to the Bank as those which could be obtained from an independent third party. Further details are set out in note 27 to the financial statements.

Independent professional advice

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary, who is responsible for advice on corporate governance matters to the Board.

Directors' indemnities and insurance

The Bank provides its Directors and Officers with the benefit of appropriate insurance, which is reviewed annually. In addition, Directors and Officers have received an indemnity from the Bank against (a) any liability incurred by or attaching to the Director or Officer in connection with any negligence, default, breach of duty, or breach of trust by them in relation to the Bank or any associated company; and (b) any other liability incurred by or attaching to the Director or Officer in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to/or in connection with their duties, powers or office other than certain excluded liabilities including to the extent that such an indemnity is not permitted by law.

Election of Directors

In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the Annual General Meeting.

Relations with shareholders

The Board recognises and values the importance of regularly engaging with its shareholders throughout the year. Investor meetings are undertaken by the founder and Chairman, Vernon W. Hill, II, the CEO, Craig Donaldson, and the CFO, Mike Brierley, supported by the Director of Investor Relations. During 2016, the team participated in over 150 individual and group meetings in the US, UK and Europe, as well as presenting at investor conferences. Institutional shareholders have the opportunity to meet with the Chairman and/or other Non-Executive Directors to discuss any areas of concern.

A newly-established Investor Relations function reports to the Board on a monthly basis on the share price performance, changes in the shareholder register, significant market updates, with the assistance of the Bank's corporate brokers, analyst and investor feedback. The Investor Relations team is responsible for ongoing communication with shareholders, analysts and investors. All financial and regulatory announcements, as well as other important business announcements, are published in the "Investors" section of the Company's website and stakeholders can subscribe to receive news updates by email by registering online on the website: https://www.metrobankonline.co.uk/investor-relations. Contact details for the Investor Relations and Company Secretariat are available for any shareholders, analysts or investors who wish to ask a question.

AUDIT COMMITTEE REPORT

Chairman's statement
I am pleased to present the first Audit Committee report following the Listing for the year ended 31 December 2016.

The four members of the Audit Committee are all independent Non-Executive Directors and bring a range of relevant business experience. In March 2016 we welcomed Sir Michael Snyder, a qualified Chartered Accountant, to the Audit Committee; he has extensive financial and audit experience.

Metro Bank has continued to pursue its growth model and, together with its successful listing in 2016, this has resulted in an increase in work and focus for the Audit Committee over the last year. We spent a significant amount of time in early 2016 reviewing and considering the reports required for the Listing, and where necessary providing comfort or recommendations to the Board for their approval. In addition, the Committee reviewed and recommended quarterly, half yearly and annual financial statements and shareholder announcements for approval by the Board.

This is in addition to monitoring the 2016 Internal Audit Plan. In developing the Internal Audit Plan for 2017, we have ensured inclusion of those areas most impacted by continued growth. We have also supported the expansion of the Internal Audit team to meet the increased workload.

The 2017 Internal Audit Plan was approved by the Board in January 2017 following discussion at the Committee, and they also approved the level of risk assurance contained within the Plan. I am therefore comfortable that the key risks to Metro Bank's unique business model have been identified and are being monitored.

During the year, the Audit Committee commissioned a comprehensive external review by Independent Audit Limited of the Internal Audit function and I am pleased to confirm that the report identified no major nor significant issues. The Committee is pleased to confirm that Internal Audit is operating effectively.

I meet at least once a month with the Director of Internal Audit and regularly with her team. I sit on the Risk Oversight Committee and work closely with Gene Lockhart, Chairman of the Committee. I also meet monthly with the Chief Risk Officer to discuss issues in her Board report. I have regular meetings with the Group Finance Director and members of his team to discuss the financial statements.

The Audit Committee met nine times in 2016 and, following each meeting, I provided a verbal update to the Board on key issues and, where necessary, outlined the actions being taken by management to address any issues raised. The minutes are also included in the next Board pack. I also meet with the external audit partner before each Audit Committee meeting and the Committee members have a session with the external Auditors at the end of each meeting without the presence of management.

Stuart Bernau
Chairman of Audit Committee
2 March 2017

Composition of the Audit Committee

The Audit Committee currently comprises the following four independent Non-Executive Directors:

Members	Number of meetings attended
Stuart Bernau (Chairman)	9/9
Gene Lockhart	7/9
Keith Carby	9/9
Sir Michael Snyder (appointed 22 March 2016)	4/6

Regular attendees at the Audit Committee include the CEO, CFO, CRO, Director of Internal Audit, Deputy Company Secretary and representatives from the external Auditors, PwC.

ROLE OF THE AUDIT COMMITTEE

The Audit Committee's key role is to review the integrity of the financial reporting for the Bank and to oversee the effectiveness of the internal control systems and the work of the internal and external Auditors.

The Audit Committee's Terms of Reference are reviewed annually and are available on the Bank's website.

AUDIT COMMITTEE REPORT CONTINUED

AUDIT COMMITTEE – KEY RESPONSIBILITIES

External Audit	Internal Audit	Financial and narrative reporting	Whistleblowing and fraud	Internal controls and risk management
• Recommend the appointment, reappointment or removal • Oversee the relationship, approve terms of engagement and review independence and objectivity • Approve remuneration and review the supply of non-audit services in line with policy • Meet regularly without management present • Ensure audit contract is tendered at least every ten years	• Approve appointment or termination of the Director of Internal Audit • Monitor and review the effectiveness of the function • Review and approve the Internal Audit Charter • Review and assess the *Internal Audit plan and* ensure that resources are adequate • Meet regularly with Director of Internal Audit and ensure access to Board • Review management's responsiveness to findings	• Monitor the integrity of the financial statements • Review and report to the Board on significant financial issues and material judgements • Review and challenge accounting policies, methods used to account for significant and unusual transactions, clarity and completeness of disclosure • Advise whether the Annual Report is fair, balanced and understandable	• Review the adequacy and security of whistleblowing arrangements • Review the procedures for detecting fraud and preventing bribery	• Monitor and review the adequacy and effectiveness of the Company's internal financial controls and risk management systems • Review and approve the statements in the Annual Report concerning internal controls and risk management

KEY AREAS DISCUSSED AT AUDIT COMMITTEE MEETINGS SINCE 1 JANUARY 2016

Month	Key topics
Jan 2016	• Financial Position and Prospects Procedures report, Working Capital report and Long Form report • Key judgement areas for the 2015 Annual Report and Accounts, including a report from the external Auditors
Feb 2016 (two meetings)	• 2015 Annual Report and Accounts, including an the assessment of going concern basis and related party transactions • Review of Conflicts of Interest policy • External audit control observations, including management responses • Review of 2015 internal audits
Apr 2016	• Review of Q1 results • Review of Anti-Bribery and Corruption policy and Whistle-Blowing policy
June 2016	• Review and approval of Internal Audit Charter • AIRB and IFRS 9 considerations – changes to accounting standards
July 2016	• 2016 Half-year results, including an update of critical accounting judgements and estimates and external auditor's review • External audit terms of engagement
Sept 2016	• 2016 External Audit plan • Non-audit services policy
Oct 2016	• Review of Q3 results
Nov 2016	• 2017 Internal Audit plan and resourcing • External review of Internal Audit function • Review of related party transactions • Approval of External Audit fee • Update on year-end reporting
Feb 2017	• 2016 full year results, Annual Report and Accounts, including assessment of the key judgements, going concern and viability reporting • Internal audit – External Quality Assessment • External Auditors' reports

In addition to the key areas opposite, the Audit Committee reviewed the progress against the Internal Audit plan and reviewed the detailed reports where appropriate.

ACTIVITIES IN 2016

Significant issues and areas of judgement considered by the Committee

In respect of financial reporting, the Audit Committee considered a number of significant issues and areas of judgement in relation to the 2016 Annual Report and Accounts.

Key issues/judgements in financial reporting	Audit Committee review and conclusions
Impairment of loans and advances Determining the appropriateness of loan loss provision is inherently judgemental and requires management to make a number of assumptions. 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 probability of default, the probability of this default resulting in possession and/or write-off, and the subsequent loss incurred. The Committee received and challenged reports from management explaining the approach taken to provisioning and the resulting changes in the provision levels during the period. The Committee is satisfied that the approach taken and judgements applied were reasonable.
Deferred tax asset The recoverability of deferred tax asset ("DTA") requires consideration of the future levels of taxable profit in the Group.	The Committee considered the recognition of DTA, in particular the seven-year financial plan including the timing over which future taxable profits will be available for the deferred tax asset to be realised. The Committee agrees with the management judgement that sufficient taxable profits will be available to utilise the tax losses carried forward in full and therefore the entire asset is considered to be recoverable.

Related parties

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

In order to ensure that the Terms of Reference of the InterArch arrangements are consistent with those that could be obtained from an independent third party, the contractual arrangements are subject to periodic review by the Audit Committee, using benchmarking reviews conducted by independent third parties.

The Audit Committee discussed the benchmarking reviews conducted by independent third parties and concluded that the arrangements with InterArch are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an alternative supplier.

Fair, balanced and understandable

In line with the Code, the Audit Committee considered whether the 2016 Annual Report is "fair, balanced and understandable and should provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy". The Committee is satisfied that the 2016 Annual Report meets this requirement and in particular, that appropriate disclosure has been included for both positive and negative developments in the year. The process enabling the Committee to reach this conclusion included:

- the compilation of the 2016 Annual Report and Accounts was managed by the Chief Financial Officer together with a cross-functional team of senior management;
- input is provided by a cross-functional team from Finance, Risk, People, Marketing, Investor Relations and business lines;
- a formal review is undertaken by the Audit Committee of the draft 2016 Annual Report and Accounts, along with a review of any issues raised in the External Auditors' report, in advance of final sign-off; and
- a final review is performed by the Board of Directors.

Internal Audit

The Group's Internal Audit function plays a key role in providing independent assessment and challenge of governance, risk and control. The Audit Committee approved the Audit plan and considered the results of its work. In addition, the Audit Committee:

- approved the Internal Audit Charter, which sets out the role and expectations of Internal Audit;
- monitored the adequacy of Internal Audit resources. The Committee was satisfied that Internal Audit had adequate resources available this year; and
- monitored the delivery of Internal Audit's plan.

During the year, the Committee commissioned an External Quality Assessment by Independent Audit Limited on the effectiveness of the Internal Audit function. The Audit Committee agreed that the function was operating effectively.

AUDIT COMMITTEE REPORT CONTINUED

System of internal control and risk management
Details of the risk management framework are provided on pages 24 to 27. In considering the effectiveness of internal controls, the Audit Committee received and discussed reports from Internal Audit and the external Auditors. In addition, executive management were invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Audit Committee.

Recommendations for improvements to internal controls by the external auditors are monitored by Internal Audit and progress reported to the Audit Committee.

External audit
The Audit Committee reviews and makes recommendations to the Board with regards to the appointment of external Auditors, their remuneration and terms of engagement.

PwC has been the Group's Auditors since the inception of the Bank in 2009.

The Audit Committee is aware of the rule that the external audit contract should be put out to tender at least every ten years and has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review. As a newly-listed company, the Bank has not yet developed an Audit Tendering policy and continues to benefit from the continuity of service provided by PwC during this period of significant change. The Bank will develop an Audit Tendering policy in 2017 and make further disclosures in this area in the 2017 Annual Report and Accounts. We will commence the tender process no later than 2019.

The Audit Committee is also responsible for the oversight of the relationship with PwC and the effectiveness of the audit process. During the year, the Audit Committee:
- reviewed the proposed Audit plan in advance of the annual audit;
- approved the audit engagement and proposed audit fee; and
- reviewed and discussed the reports provided by PwC.

At the end of each Audit Committee, the Audit Committee members met the external Auditors without management present, to discuss any relevant issues directly with the Committee.

RISK OVERSIGHT COMMITTEE REPORT

Chairman's statement
I am pleased to present this report of the Risk Oversight Committee ("ROC").

The ROC continues to focus on overseeing risk and advising the Board, as appropriate, on the risk arising to Metro Bank from its continuing business activities and future risk strategy.

There has been considerable change in 2016 for Metro Bank, including substantial growth in the Bank's balance sheet, the size of its workforce and number of stores. During the year, the Bank has reviewed its operational risk management framework; a number of enhancements will be made in 2017 to reflect emerging regulatory changes and ensure it is appropriate for Metro Bank's current size while taking into account future growth.

During the year, the ROC reviewed a range of policies, documents and transactions, and discharged other advisory and oversight responsibilities. I provide a verbal update to the Board and the Risk Oversight Committee minutes are included in the next Board pack.

In 2017, the risk activities of the ROC and the Bank will continue to grow. High on the agenda is Metro Bank's ongoing development of a credit risk rating model, which will be used in its application to use the Advanced Internal Ratings-Based approach to calculating credit risk capital requirements. This will enable the Bank to continue to grow its business in a risk-sensitive way to 2020 and beyond.

The following sections explain the role and activities of the ROC, and how it has discharged these responsibilities, as well as setting out several key areas of activity during 2016.

Gene Lockhart
Chairman, Risk Oversight Committee
2 March 2017

Composition of the Risk Oversight Committee

The Risk Oversight Committee currently comprises the following four independent Non-Executive Directors:

Members	Number of meetings attended
Gene Lockhart (Chairman)	7/7
Stuart Bernau	7/7
Ben Gunn	6/7
Sir Michael Snyder	4/7

All four held office throughout 2016. All other Non-Executive Directors may attend ROC meetings. The CFO, CRO and CEO have standing invitations to attend as guests, unless the Chairman of the Committee asks them to excuse themselves from a particular meeting or discussion.

Other Directors and Metro Bank colleagues attend as guests by invitation of the Chairman to present and report on topics relevant to the Bank.

The ROC's Terms of Reference are reviewed annually and are available on the Bank's website.

ROLE OF THE RISK OVERSIGHT COMMITTEE

The ROC is a sub-Committee of the Board. Its specific responsibilities are set out in its Terms of Reference.

Accountable to the Board, the ROC provides leadership, oversight, and direction regarding the Bank's risk governance and management. The ROC is charged with assisting the Board in creating an appropriate culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. It is responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, ICAAP, ILAAP and risk policies. The Committee oversees the Bank's risk management procedures and reviews risk reports on key business areas. Additionally, it advises the Audit Committee on reviews of effectiveness of the Bank's risk controls, and advises the Nomination and Remuneration Committees on risk weightings to be applied to the remuneration calculations for the Executive Leadership Team.

The ROC receives regular Management Information ("MI") and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. It receives regular updates on regulatory developments, and considers how these will affect the Bank's plans, processes, systems and controls.

RISK OVERSIGHT COMMITTEE REPORT CONTINUED

The ROC reviews and formally notes the minutes of the Executive Risk Committee ("ERC") and the Asset and Liability Committee ("ALCO").

As a key part of Metro Bank's governance framework, the ROC ensures that the CRO has unfettered access to it and its Chairman.

MEETINGS

The ROC meets at least quarterly. It met seven times in 2016: in February, March, May, July, October and November (twice). Additional meetings may be convened by the Chairman of the Committee, the CRO or any two Committee members.

KEY ITEMS CONSIDERED BY THE ROC DURING 2016

Over the course of 2016, the ROC received items of business including the following:

	N	A	R
Individual Liquidity Adequacy Assessment Process document ("ILAAP") incorporating Treasury policy and Contingency Funding plan			•
Credit Risk policy			•
Enterprise Risk policy			•
Commercial Lending policy		•	
Minimum Requirement on Own Funds and Eligible Liabilities ("MREL")	•		
Recruitment policy		•	
Responsible Lending policy			•
Arrears Management policy		•	
Outsourcing policy		•	
Compliance policy			•
Residential Mortgage Lending policy		•	
Money-Laundering Reporting Officer ("MLRO") Annual Report	•		
Anti-Money-Laundering/Counter Terrorism Financing policy			•
Sanctions policy		•	
Credit Risk Model framework			•
Credit Risk Model policy		•	
Credit Risk Model design principles	•		

N = Noted; A = Approved; R = Recommended to the Metro Bank Board for approval.

* The Fraud policy is owned by the Audit Committee and was noted to the ROC.

At each scheduled meeting the ROC considered the following standing items:

- **CRO's overview**
  An executive summary from the CRO setting out items of note and assessing the Bank's performance against its risk metrics.
- **Credit risk analytics and underwriting**
  Execution of Metro Bank's strategy requires prudent and controlled management of credit risk. In this regard, the ROC has a role to oversee credit underwriting and ensure that the Bank has effective processes and controls to monitor and manage credit risk, including where the risk position associated with a particular customer or loan has deteriorated. It ensures that lending remains within risk appetite and monitors policy exceptions.
- **Operational risk**
  The ROC receives regular reports concerning risk and control self-assessments, information security, business continuity management and incidents. While a number of incidents were raised during 2016, it is the view of the ROC that the management of these incidents and the actions taken in response was proportionate and appropriate to the size and scale of the incidents. It also notes that post-incident reviews were held for high-severity incidents to capture learnings and ways to prevent or mitigate any potential recurrences. ROC has taken particular interest in cyber risk in 2016 owing to the increased prevalence of attempted attacks against financial services and other firms.
- **Compliance and conduct risk**
  In a constantly-changing regulatory environment, the ROC is updated regularly on developments and regulatory changes that could impact the Bank. It receives updates on compliance and conduct risk under the pillars of culture and governance, product governance, customer treatment, and voice of the customer. The ROC is also updated on the Bank's management of expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line.
- **Anti-Money-Laundering and Counter Terrorism Financing ("AML/CTF")**
  The ROC receives a regular AML/CTF report which includes management information on compliance with customer identification and verification requirements for all new accounts. Additional reporting incorporates payments and customer screening and updates on items of note from the Financial Crime Steering Group.
- **Treasury**
  While the primary venue for in-depth discussions on Treasury is ALCO, the Treasurer's commentary is tabled at each ROC meeting. Treasury policies are reviewed and the CRO's report includes high-level MI on liquidity and interest rate risk, and the minutes of ALCO are also noted by ROC. The Chairman of ROC attends ALCO as a standing guest.
- **Litigation update**
  The ROC notes the report from Metro Bank's Legal team on any material litigation cases to which the Bank is party.

The ROC receives in-depth reviews on areas of emerging risk or regulatory interest throughout the year. Topics covered during 2016 included information security, fraud, portfolio concentration risk, collections effectiveness and the performance of the mortgage portfolio acquired in Q3 2015.

NOMINATION COMMITTEE REPORT

Composition of the Nomination Committee

The Nomination Committee currently comprises the following four Non-Executive Directors:

Members	Number of meetings attended
Howard Flight (Chairman)	3/3
Vernon W. Hill, II	3/3
Keith Carby	3/3
Roger Farah	3/3

Craig Donaldson (CEO) attends meetings by invitation and the Chief People Officer, Danielle Harmer, acts as the Secretary to the Committee.

Following each meeting the Chairman provided a verbal update to the Board. The Committee minutes are also included in future Board papers.

Chairman's statement

It is with great pleasure that I present the Nomination Committee Report for 2016. This is the first report since our Listing on the London Stock Exchange in March 2016.

The Board first met in its current form in March 2010 before the Bank opened its doors to the public. Several Non-Executive Directors have served on the Board for a number of years. During this time the role of the Board has changed significantly, as the Group has evolved from a start-up to Listing on the London Stock Exchange on 10 March 2016.

During the year the Committee analysed the Board structure, paying particular attention to succession planning and diversity. We appreciate the need for a talent pipeline coming through below Board level and to dig deeper into the Company for future leaders.

Board composition

The Chairman, together with the Chairman of the Nomination Committee, regularly review the composition of the Board to ensure there is an appropriate balance of skills, experience, independence and knowledge of the Group. Board succession planning has been at the forefront of the Nomination Committee's considerations in 2016 and the Committee plans to take the necessary steps to ensure a smooth and orderly Board succession.

In light of the increasing demands on the Audit Committee and the increasing complexity of the Group, Michael Snyder was invited to join the Committee in 2016.

Diversity

The Committee recognises the merit of diversity and this continues to remain a high priority for the Board, particularly as the Group evolves. It is the intention of the Committee to source an inclusive shortlist when seeking new Non-Executive Directors.

Terms of Reference

Across the year the Committee has reviewed and revised its Terms of Reference in accordance with the Listing on the London Stock Exchange in March 2016. The Nomination Committee's Terms of Reference are available on the Bank's website.

Howard Flight
Chairman, Nomination Committee
2 March 2017

ROLE OF THE NOMINATION COMMITTEE

The Nomination Committee leads the process for identifying and making nomination recommendations to the Board. The duties of the Committee include:

- regularly reviewing structure, size and composition (including skills, knowledge, experience and diversity) of the Board, and making recommendations to the Board as required;
- considering succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the Board in the future;
- responsibility for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- considering Board candidates on merit and against objective criteria and with due regard for the benefits of diversity, taking care that appointees have time available to devote to the position; and
- reviewing the results of the Board performance evaluation process relating to the Board composition.

ACTIVITIES OF THE NOMINATION COMMITTEE DURING THE YEAR

Matters considered by the Committee include the following:

- Reviewing the composition and diversity of Board membership
- Considering Board tenure and succession, and the process of making new appointments
- Considering and approving an updated Terms of Reference for the Nomination Committee

REMUNERATION COMMITTEE REPORT

Composition of the Remuneration Committee

As at 31 December 2016, the members of the Committee were all independent Non-Executive Directors:

Members	Number of meetings attended
Howard Flight (Chairman)	4/4
Keith Carby	4/4
Roger Farah	4/4

Craig Donaldson (CEO) and Vernon W. Hill, II (Chairman) attend meetings by invitation and assist the Committee in its deliberations as necessary (other than in relation to their own pay and fees). The Committee also receives assistance from the Chief People Officer, Danielle Harmer, who acts as the Secretary to the Committee.

Following each meeting the Chairman provided a verbal update to the Board. The Committee minutes are also included in future Board papers. Areas of discussion are outlined on the following page.

Chairman's statement
On behalf of the Board, and as Chairman of the Remuneration Committee, I am pleased to present the Remuneration Committee Report and also the Directors' Remuneration Report ("the Report") for the year ended 31 December 2016 including the Remuneration policy for Executive and Non-Executive Directors, which describes how the Remuneration policy is implemented and discloses the amounts paid relating to the year ended 31 December 2016.

The Company's Remuneration policy (which is proposed to apply for three years) will be presented to shareholders for approval (by way of a binding vote) at the Annual General Meeting ("AGM") in April and will take effect from that date. The Company's report on remuneration for 2016 will also be presented to shareholders at the AGM along with this statement for approval by way of a non-binding advisory vote.

Remuneration consists of a base salary, appropriate benefit and pension provision and variable reward. Variable reward is delivered through share-based awards; primarily share options, and cash, the receipt of which is subject to stretching personal and Company performance conditions over one financial year, subject to deferral over five years. All share options are awarded at the market share price with no discount. All employees throughout the organisation are eligible for share options or an equivalent as there is a strong ethos of employee buy-in and ownership.

All variable reward is subject to malus and clawback (apart from the relatively small proportion of the non-deferred cash element paid after the end of the relevant financial year).

Our approach to variable pay also ensures longer-term alignment with other stakeholders through deferral and the fact that it is paid via share-based awards, usually share options. We do not operate separate long-term incentive plans. This is because as a growth organisation our short-term goals are aligned to our long-term strategic objectives.

PERFORMANCE AND REWARD OUTCOMES IN THE 2016 FINANCIAL YEAR

It has been a significant year for Metro Bank; which listed on the London Stock Exchange in March 2016 and achieved full quarter statutory profitability for the first time in Quarter 4. In determining the Executive Directors' remuneration this year, the Committee has balanced the principle of paying for performance with the need to motivate and retain our key leaders.

Variable reward
Variable reward is based on key financial, risk, customer, people and culture objectives balanced with the personal behaviours, contribution and delivery of individual Executive Directors.

Final decisions on 2016 variable reward cannot be made until after we announce our annual results. We are proposing total variable reward of 52% of the maximum 200% allowed within our Remuneration policy for the CEO and variable reward of 45% of the same maximum allowed within our policy for the CFO in respect of the 2016 financial year. At least 75% of variable reward is awarded as options which vest over up to five years. The proposed figures are used in the single figure table in the Report on remuneration for 2016.

REMUNERATION FOR THE YEAR ENDING 31 DECEMBER 2017

We will be taking the following approach to implementation of the Remuneration policy for the year ending 31 December 2017:

Non-Executive Director fees
The additional annual fee paid to members of the Remuneration Committee will increase from £5,000 p.a. to £10,000 p.a. and to the Chairman of the Remuneration Committee will increase from £15,000 to £20,000, from 1 April 2017. This is to bring these fees in line with the market for this Committee. All other Non-Executive Director fees will remain unchanged.

The fees for the Chairman, Vernon W. Hill, II, increased by 35% to £385,000 from 1 February 2017. The Chairman's fees were last increased in April 2014.

Variable reward
The Committee will set appropriate and stretching annual variable reward targets for the year ended 31 December 2017 based on key financial, risk, customer, people and culture objectives. The Committee is committed to providing transparency in decision making in respect of variable reward. It will disclose historic targets and measures, together with information relating to performance against those targets in the Annual report on remuneration for the relevant year, except to the extent that this is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

At least 75% of any variable pay earned will be awarded as share options deferred over up to five years as explained in the policy.

The Committee believes this approach to variable reward will continue to focus the Executive Leadership Team on growth and building the long-term and sustainable success of the business. In fact, all employees are eligible to be included in our share schemes as part of our ethos to enable colleagues to have meaningful equity ownership.

Salary
The CEO's salary will remain unchanged in 2017.

The CFO's salary will increase by 714% to £375,000 from 1 April 2017 to reflect the growth of the CFO role, and also how his salary and total compensation compare to the pay data for FTSE 250 CFOs.

Pay and employment conditions of other colleagues in the Bank were taken into account when setting this Remuneration policy. Salary increases compare with the typical rate of increase to be awarded to employees across the Company with an overall pay pot of 5% for all employees. This is made up of a pay pot of 2.25% for normal inflationary and performance-related pay rises. We have also set aside additional funds for increases linked to Company and individual role growth in line with our model and/or realigning specific jobs better to the market data available. For these growth and market data realignment increases the average pay rise is 10.97%.

The Committee believes that the overall remuneration structure continues to be appropriate. It ensures there is significant alignment between the interests of Executive Directors and shareholders.

We will of course keep the Remuneration policy to be approved by shareholders under review to ensure that our structures remain effective, competitive and aligned with the Company's objectives. Any changes to policy will be subject to shareholder approval.

As Chairman of the Remuneration Committee I engage with relevant organisations concerning the Company's approach to remuneration.

On behalf of the Committee, thank you for your continued support. I trust that you find the report informative and please do contact me with any comments or questions you may have.

Lord Flight
Remuneration Committee Chairman
2 March 2017

ROLE OF THE REMUNERATION COMMITTEE

The Committee's primary objective is the design of a remuneration framework that promotes the growth and long-term success of Metro Bank and reflects the unique culture and values, which deliver an outstanding customer experience.

- It promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of risk tolerated and agreed by the Board.
- It is in line with our business strategy and objectives, with a strong emphasis on long-term growth and share options as the major source of reward so that everyone is focused and rewarded for long-term, sustainable success.
- It is actively aligned to the delivery of an outstanding customer experience, as a result of the way we measure behaviours and performance for individuals and how we capture and act upon customer insight across the organisation.
- It rewards success and is an attractive framework for talented individuals, in particular it strikes a balance between short-term rewards whilst also recognising the long-term performance of the business.
- It complies with the FCA remuneration principles.

Full details can be found on our website www.metrobankonline.co.uk.

Key areas discussed at Remuneration Committee in 2016

Area	Discussion
Policy	• Remuneration Committee Terms of Reference • Remuneration policy • Variable reward scheme rules – old and new • Annual remuneration disclosure for 2015
Remuneration	• Base pay of Executive Directors, Non-Executive Directors and members of the Executive Leadership Team • Confirmation of application of deferred executive pay increases
Awards	• 2016 pay and variable reward quantum and multipliers • Share options – number available for granting and dilution policy • 2016 Annual Reward Review – outcomes and CEO summary • Share options for Advisory Board
Share plans	• New Share Incentive Plan ("SIP") which may be implemented in 2017 and offered to all colleagues
Pension	• Default fund changes • Pension provider review
Other	• Revised appointment letters for Chairman and Non-Executive Directors and contracts for Executive Leadership Team

DIRECTORS' REMUNERATION REPORT 2016

FOR THE YEAR ENDED 31 DECEMBER 2016

OUR REMUNERATION POLICY

The policy outlines the overall approach Metro Bank adopts towards managing remuneration for Executive and Non-Executive Directors. Approval for this Remuneration policy will be sought at the Company's Annual General Meeting and, if approved, will take effect from that date. It is intended that the policy will apply for the three years beginning on the date of approval. However, the Remuneration Committee will consider the policy annually to ensure it remains aligned with business strategy and the regulatory framework. Any changes needed within three years would be subject to shareholder approval, where required. Details of how the policy will be applied in 2017 are included in the Report on remuneration.

Policy details can be accessed on the Company's website: www.metrobankonline.co.uk. In the interest of full disclosure, the Remuneration Committee has included these below to be read alongside the Remuneration report for the year ending 31 December 2016.

1. Policy

Metro Bank offers banking, focused on the customer, through unparalleled levels of service and convenience. It has a simple approach to compensation which reinforces its model by rewarding the right behaviours and outcomes for customers and the business, focusing on long-term growth and discouraging unnecessary risk-taking.

Reward principles:

- Pay fair salaries and offer strong career and growth opportunities in an AMAZEING culture.
- Make everyone an owner; aligning them to the Bank's long-term vision.
- Reward colleagues based on Metro Bank's performance and how they behave and deliver; both as part of the team and as an individual.
- Keep reward as simple as possible, with one approach for all.
- Take a retail approach to variable reward; no excessive cash bonuses or linear incentives which can skew behaviours and encourage unnecessary risk-taking.

This policy has been developed taking into account the various regulatory requirements and governance principles. The Directors have regular open discussions with investors and are available for feedback on reward matters.

Pay and employment conditions of other colleagues in the Bank were taken into account when setting this Remuneration policy. In particular, base pay of Executive Directors is limited by reference to colleague pay as described on page 53. Colleagues are able to express any views on pay through regular surveys and feedback.

2. Components of remuneration for Executive Directors

Base salary	
Purpose and link to strategy	Base pay is part of the total proposition at Metro Bank, including career and growth opportunities and long-term reward. We aim to set pay at a level which enables us to attract and retain the right calibre of colleagues, with the required level of skills, experience and cultural alignment to deliver and improve the model.
Operation	Base salaries for Executive Directors are reviewed annually by the Remuneration Committee with any increase usually taking effect from 1 April the following year. The following key factors are taken into account: • Company culture and delivery • Individual behaviours and delivery as per AMAZEING reviews • Relevant external market data • Scope and size of role • Individual's skills, expertise and experience and ability to grow with the role and organisation • Level of increases for all colleagues • Internal relativity • Economic factors, e.g. inflation • Affordability and available budget Subject to the maximum opposite, we position salary levels for Executive Directors within the median range of the market, with consideration given to total compensation and the long-term growth focus of our model.

Base salary	
Maximum potential	Salary increases in percentage terms for Executive Directors will normally be in line with increases awarded to other colleagues, but there may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, particularly where salary level is significantly below market for the size and scope of the role as the organisation grows.
Performance measures	Any salary increases for Executive Directors are based on individual behaviours and performance, growth of the role and how salaries compare to pay data for that role.

Pension	
Purpose and link to strategy	Our Pension policy aims to support Executive Directors in building long-term savings for their retirement, without exposing the Bank to any unnecessary financial risk or unacceptable cost.
Operation	Executive Directors are automatically enrolled into our Group Personal Pension Plan ("GPPP") when they join the Bank. If they have exceeded the Life Time Allowance or the annual pension tax-free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit. The amount received, before deduction of tax and NI, is broadly equivalent in value to the contribution that would have been made to the GPPP by Metro Bank.
Maximum potential	The maximum employer contribution (including cash in lieu) is 10% of salary.
Performance measures	There are no performance measures related specifically to pension contributions.

Benefits	
Purpose and link to strategy	We have a simple approach to reward and we also support the health, wellbeing and security of our Executive Directors through additional core benefits. Benefits may include those currently provided and disclosed in the Annual report on remuneration.
Operation	**Core benefits include:** • Life Assurance of 4x salary • Private Medical Insurance for the Executive Director, their partner and children Additional benefits may be provided in certain circumstances such as on relocation. **Legacy** Income Protection is in place for the two Executive Directors. Benefit basis is: 50% of basic annual salary (at date of incapacity) up to state pension age for a period of 60 months. Maximum benefit is £350,000. Executive Directors have access to voluntary employee-funded benefits available to all colleagues. **Share Incentive Plan** The Executive Directors will be eligible to participate in any, new, all-employee Share Incentive Plan ("SIP") which may be operated.
Maximum potential	The maximum paid in respect of benefits will be the cost to Metro Bank of providing the benefits noted above. The cost may fluctuate from year to year even if the level of benefit provided remains unchanged.
Performance measures	There are no performance measures specifically related to benefits.

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

Variable remuneration	
Purpose and link to strategy	Our discretionary variable reward scheme is made up of cash and deferred reward normally in the form of share options (market value), or by exception, shares awarded subject to forfeiture (together called "Share Awards"). As a growth model organisation, Share Awards form the main part of our variable compensation to encourage Executive Directors to focus on the long-term and to think and behave like owners. The purpose of variable reward is to recognise Executive Directors for demonstrating our AMAZEING Behaviours and also for achievement against business priorities for the year.
Operation	We operate a discretionary variable reward scheme based on behaviours and performance over the year, paid in the form of cash and Share Awards for all colleagues including Executive Directors. We do not operate any separate and additional Long Term Incentive Plans. At least 50% of variable pay is deferred into long-term Share Awards, normally in the form of share options, and a further 25% is deferred into one year vesting Share Awards; again normally share options. The remaining 25% is paid as cash. This means a minimum of 75% of variable reward is deferred into Share Awards. Options may vest early, e.g. on a takeover or other transaction or on leaving employment in certain circumstances (see below). Alternatively, on a change in control etc., Share Awards may be exchanged for awards over shares in the new company. Options are normally exercisable for ten years from the date of grant. Options may be satisfied on exercise by delivering shares equal to the gain. Share Awards satisfy regulatory requirements around the deferral of variable reward and once vested, may also be subject to a holding period. Share Awards are not subject to further performance conditions on vesting since the award itself was subject to the achievement of performance conditions, but are subject to malus or claw back as explained opposite. Variable compensation relating to the previous performance year is communicated to Executive Directors in the following February or March, annually. Cash bonuses are then paid in March and Share Awards are usually granted in March or April of that year. We use a Black-Scholes method to inform the fair value of options at the time of award and the fair value of Share Awards will never be more than the variable remuneration deferred. Through our Bonus Exchange Scheme, Executive Directors may be allowed to "exchange" part or all of the cash element of any variable compensation into their Metro Bank pension, or into immediate vesting Share Awards. The cash element may be exchanged for Share Awards at an exchange "price" approved by the Remuneration Committee. The exchange price offered to Executive Directors is on the same basis as for all other colleagues. The fair value of the Share Awards via Bonus Exchange will never be more than the cash element exchanged. There are no holding periods for these Bonus Exchange Share Awards.
Maximum potential	Total variable remuneration, including the fair value of Share Awards, for each Executive Director for any year will not exceed 200% of their base pay at award.

Variable remuneration	
Performance measures	The variable reward pool for any year is based on the overall performance of the Bank in terms of culture and delivery in line with the Balanced Scorecard, set out under "Performance measures" below. We also consider risk-adjusted financial performance in setting the overall pool. Executive Directors are awarded variable remuneration for a year on a discretionary basis taking into account: • overall culture, performance and success of Metro Bank; and • individual behaviours and performance based on their AMAZEING Reviews – these performance targets are agreed at the beginning of the year and are reflected in the Balanced Scorecard for Metro Bank.

Behavioural framework expectations	Balanced Scorecard performance targets
AMAZEING Behaviours framework covers the following behaviours: • Attend to every detail • Make every wrong right • Ask if you are not sure, bump it up • Zest is contagious, share it • Exceed expectations • Inspire colleagues to create FANS • Nurture colleagues so they grow • *Game change because this is a Revolution*	Fall into the following categories: • Financial • Risk • Customer • People and culture

The Bank is focused on the right outcomes for customers and does not "incentivise" the delivery of any specific targets in a linear way.

The performance measures will be set by the Remuneration Committee at the start of each financial year. At least 25% of measures will be based on financial indicators. No more than 75% of the maximum variable remuneration (i.e. no more than 150% of base pay) will be paid for on-target performance.

We are committed to providing transparency in decision-making in respect of variable reward. We will disclose historic targets and measures together with information relating to performance against those targets in the Annual report on remuneration for the relevant year, except to the extent that this is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

Notes

Malus and clawback apply to all deferred variable remuneration. The majority of our variable reward is focused on Share Awards – clawback is not applied to the relatively low cash element of variable pay. Vesting or exercise of Share Awards can be reduced or delayed or clawed back; including if there is a restatement of accounts or a material failure of risk management, a material downturn in financial performance or evidence of misconduct by an Executive Director.

The Remuneration Committee retains discretion with regards to variable reward. This relates to:
- the timing, size and type of awards and holding periods, subject to policy maximums;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends);
- adjustment of targets and measures if events occur which cause it to determine that the conditions are no longer appropriate. The Remuneration Committee also retains the right to change performance targets and measures and the weighting of measures, including following feedback from regulators, shareholders and/or other stakeholders; and
- amending the plan rules in accordance with their terms.

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

3. Additional criteria for Executive Director remuneration

Executive Directors are remunerated broadly in line with the same structures that apply across the wider employee population. The performance conditions for variable pay awards are similar to those for all colleagues.

4. Changes to policy

As this is the first Remuneration policy of Metro Bank to be approved by shareholders, there is no policy against which changes in this policy can be identified.

5. Approach to remuneration when recruiting Executive Directors

When appointing a new Executive Director, the Remuneration Committee seeks to align the remuneration package for the individual with Metro Bank's Remuneration policy and takes into account the package as a whole.

The Committee has the flexibility to make compensatory awards to new Executive Directors, to compensate the Executive Director for benefits they may lose as a result of joining Metro Bank.

These awards:
- will be made up of the same inputs as the normal variable compensation for Metro Bank colleagues and Executive Directors;
- consider the value, at the time of grant, of the awards being lost;
- will be in a similar form as the awards which are being lost, where possible;
- vest over a similar or longer time period than the awards being lost; and
- are subject to comparable service and performance conditions and continued employment.

The limit on variable remuneration described on page 54 will not apply to these compensatory awards. The flexibility to offer a higher level of variable remuneration to new recruits is required to give the Company flexibility when negotiating with potential new recruits.

We may also choose to pay allowances to enable us to hire someone who will need to live away from home in order to be employed by us which may include assistance with children's education, periodic trips home, spouse and children's travel amongst others.

6. Illustration of application of Remuneration policy

The graphs below illustrate the total remuneration for 2017 for each Executive Director in office at the end of 2016 based on this policy (the first year in which this policy will apply) for minimum (fixed only) remuneration, on-target and maximum.
- Fixed element is:
  - base salary
  - pension contribution of 10%
  - benefits as outlined in the policy table for which we have assumed a value of 1.5% of salary
- Minimum (fixed only), on-target and maximum potential annual variable remuneration that may be awarded:

Notes
1 These illustrations are based on salaries as at April 2017 and consider the cash amount of annual variable remuneration before conversion into Share Awards as described on page 54. No account is taken of the effect of share price changes or dividends on the value received from Share Awards or shares received under them.

7. Remuneration on or after termination

For each component of pay, the amount paid to an Executive on termination will be determined as follows:

Component of pay	Determination
Salary/fees	The Executive Director is entitled to be given notice of termination of the relevant length and receive their normal base salary and benefits in that time. The Bank has discretion to make a payment in lieu of base salary in respect of any unexpired notice period and may decide to pay this in instalments, subject to reduction if the Executive Director finds alternative employment. Benefits will continue until the last day of contractual employment and the accrued but unused holiday will be paid out.
Variable pay	Variable remuneration may accrue during a notice period however (unless decided otherwise by the Remuneration Committee at its discretion) the Executive Director has to be employed at the date that any variable remuneration is awarded in order to be eligible to receive it. No variable compensation is payable after termination and previous unvested variable reward deferred into Share Awards will usually lapse. However, if the Executive Director leaves for the reasons detailed in the Deferred Variable Reward Plan Rules (e.g. ill health, retirement, redundancy or death) or in other circumstances at the discretion of the Remuneration Committee, their award under that plan will continue on the same terms (subject to reduction and clawback as described in the policy) and vest at the normal time provided any performance conditions are met.
Pension	Pension contributions continue to be made during the notice period. No further payment in lieu of pension or pension contributions can be made after termination. Any benefits will become payable in the normal course in accordance with the rules of the scheme. There is no right to early payment of benefits unless this can be done without additional contribution from the Bank.

The circumstances of an Executive Director's leaving and their behaviours and performance will be considered by the Remuneration Committee when deciding whether it should, in the circumstances, exercise its discretion to treat them as a "good" leaver or not. For example, someone voluntarily leaving to join a competitor is unlikely to be treated as a good leaver. As a general principle we do not reward failure.

The Bank's policy is that Executive Directors' contracts can be terminated by either party on giving no more than 12 months' notice.

Additional payments can be made by way of damages for breach of any legal obligation or by way of settlement or compromise of any claim raised by the Executive Director.

The Directors' service contracts and letters of appointment are available for inspection on request at the Company's registered office.

8. External appointments

Executive Directors are permitted to accept one appointment on a Board or Committee of a listed company so long as this does not interfere or conflict with the business of the Company. Any fees received in respect of these appointments can be retained directly by the relevant Executive Director.

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

9. Components of remuneration for Non-Executive Directors

Component of pay	Determination
Fees	All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of Committees, or acting as the Senior Independent Director. Fees for Committee chairmanship are paid in addition to any fees for Committee membership. The Non-Executive Chairman receives an annual fee for the performance of his role. This fee is agreed by the Remuneration Committee. Fees for both Non-Executive Directors and the Non-Executive Chairman are paid in cash, subject to the appropriate deductions. The amount payable takes into account: the time commitment and requirements of the role; individual performance and experience; benchmark data from appropriate market sources and the financial performance of the Bank. The basic and additional fees are reviewed periodically, drawing on external market information for comparable financial services groups and companies. Any increase normally takes effect from April of a given year. The maximum aggregate annual fees that can be paid to the Chairman and Non-Executive Directors are capped at £3,000,000.
Benefits	Non-Executive Directors do not participate in any pension, bonus or long-term incentive arrangements or receive any other benefits. Travel and expenses incurred in the normal course of business, e.g. in relation to attendance at Board and Committee meetings, are met by the Bank. The Chairman receives a monthly allowance as a contribution towards travel to and from the US and towards living expenses whilst he is in the UK. This is currently £10,000 per month before tax and National Insurance Contributions. He does not claim any other expenses for travel to/from the UK, and subsistence, in relation to his role as Chairman.
Fees on recruitment	The fees payable to a new Non-Executive Director will be consistent with the current basic fee structure in place for all Non-Executive Directors and reflect any additional responsibilities as Chairman or member of Board committees. The fees payable to a new Non-Executive Chairman will be set with reference to external market data; internal relativity among other Executive and Non-Executive Directors and the requirements of the role.
Letters of appointment	The Chairman is appointed for a fixed term of two years; which renews automatically on each anniversary. Either party can stop the automatic renewal up to two months before the renewal but the Company must pay out the balance of the fixed term if it terminates his appointment. There is no provision for any other early termination compensation and no payment for loss of office. Appointment letters for the Non-Executive Directors provide for a notice period of one month; during which time they are entitled to be paid their normal fees or payment in lieu without liability for compensation. There is no provision for any other early termination compensation and no payment for loss of office.

It is the Company's policy to honour any commitments made to a Director before they became a Director or before this policy took effect, even if it may not be consistent with this policy. For example, Metro Bank will honour the share option awards made to the Non-Executive Directors and the conditional cash award, converted to shares, paid to the Executive Directors in relation to the Listing of the Company on the London Stock Exchange, the details of which were described in the Prospectus

ANNUAL REPORT ON REMUNERATION

This section sets out Metro Bank's remuneration of its Executive and Non-Executive Directors during the financial year ending 31 December 2016 and will, together with the annual statement by the Chairman of the Remuneration Committee, be put to shareholders as an advisory vote at the 2017 AGM to be held on 25 April 2017.

IMPLEMENTING OUR REMUNERATION POLICY

Earnings in 2015 and 2016 (single figure amount) (audited)
Annual remuneration (£)
The following sets out the remuneration for all the Executive Directors who served during 2016

	Craig Donaldson		Mike Brierley	
	2016	2015	2016	2015
Salary	**£571,250**	£513,750	**£297,500**	£266,250
Taxable benefits[1]	**£1,072**	£1,105	**£8,709**	£11,216
Variable pay, including deferred element[2]	**£672,750**	£0	**£315,000**	£0
Pension benefits[3]	**£57,125**	£51,375	**£29,750**	£26,625
Other[4]	**£2,722**	£2,444	**£5,226**	£3,463
Total remuneration excluding Listing awards	**£1,304,919**	£568,674	**£656,185**	£307,554
Awards linked to Listing[5]		£2,092,800		£1,209,600
Total remuneration including Listing awards	**£1,304,919**	£2,661,474	**£656,185**	£1,517,154

Notes:
1 Taxable benefits includes: Private Medical Insurance for the CEO and CFO and a travel allowance for the CFO of £10,111 (payable in 2015) and £7,637 (payable in 2016). This allowance ceased on 30 September 2016.
2 75% of the total variable pay awarded is converted into share options – see award methodology below. Any share option grants awarded as outlined below are included in this figure, they are not in addition to it.
3 Pension contributions for the Executive Directors may be paid into a Group Personal Pension Plan or paid as a cash in lieu of pension allowance. Both have opted out of the pension scheme as they have reached the Life Time Allowance and receive a cash allowance of 10% of salary.
4 This is made up of non-taxable benefits provided to the Executive Directors and includes: Life Assurance; Group Income Protection and an annual health check.
5 As disclosed in the Prospectus, the Executive Directors received a higher variable reward for 2015 in the form of Share Awards in recognition of their significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange, as well as their overall performance in 2015. No other normal annual variable reward for the 2015 performance year was awarded to these individuals. The Listing Share Awards were subject to continued employment and Admission occurring and were granted to the Executive Directors in March 2016 hence they were not included in note 10 to the Annual Report for the year ended 31 December 2015 but referenced in note 37 and in the Prospectus. Further details are included in the share interests table. No further performance conditions apply to vesting. To date 20% of the award has vested (March 2016) and the remaining 80% will vest annually on 30 April, 16% each year.

CEO five-year remuneration

	Craig Donaldson				
	2016	2015	2014	2013	2012
Total remuneration including Listing awards	**£1,304,919**	£2,661,474	£749,443	£1,294,100	£543,947

Calculation methodology of proposed variable pay for the Executive Directors

We are applying a weighting for Company performance of 90% for 2016 based on the following Balanced Scorecard metrics which were agreed at the start of 2016 as representing a balanced approach to overall Company performance in line with our customer service focused growth model, which are reported monthly to the Board:

Balanced Scorecard quadrants	Weightings for quadrant	Weighted performance for quadrant
Financial	30%	28%
Risk	20%	20%
Customer	35%	28%
People and culture	15%	14%
Totals	**100%**	**90%**

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2016

The proposed variable reward for the CEO, Craig Donaldson, is calculated as follows:

"On-target" variable reward	Multiplied by Company performance weighting of 90%	Multiplied by personal behaviours and delivery multiplier	Recommended total variable reward:
£650,000	x90%	x1.15	£672,750

A discretionary personal behaviours and performance multiplier of 1.15 has been applied in recognition of Craig Donaldson's significant contribution and strong leadership in 2016; in particular his critical role in our significant growth as a newly listed FTSE 250 company and the first full quarter of profit in 2016.

This is the total variable reward Craig Donaldson will receive for the 2016 performance year as we do not operate any other awards or schemes such as Long Term Incentive Plans.

This is in line with the approach we take with all colleagues where a discretional multiplier of between 1 and 2 is applied to variable reward for all colleagues whose behaviours and delivery are as expected or better.

This variable reward will be awarded as per our policy:

Award	Amount (cash equivalent)	Method of award	Quantum
50% of variable reward awarded as one-year vesting share options and cash bonus	£672,750 x 50% = £336,375	50% paid as cash and 50% paid as options vesting 12 months after award	Cash £168,190[1, 2] 16,819 one-year vesting options[2] vesting fully on the first anniversary of grant
50% of variable reward awarded as share options vesting over five years	£672,750 x 50% = £336,375	Converted into share options at a current proposed fair value of £10[3]	33,637 five-year vesting options with the first vest being on the anniversary of grant and annually thereafter
Totals	**£672,750**	**Awarded as:**	**£168,190 cash[1]** **50,456 share options[3]**

1 This cash can be converted into immediate vesting share options via the Company Bonus Exchange scheme at a current proposed fair exchange value of £10, i.e. 16,819 share options.
2 All share option awards rounded to nearest option and all cash rounded to nearest £5.
3 The final fair value for calculating share option numbers from the total variable reward will be approved by the Remuneration Committee after our annual results are published.
4 Any share options awarded will be granted at an option price based on the Volume Weighted Average Share Price ("VWAP") for MTRO for 30 March 2017.

The proposed variable reward for the CFO, Mike Brierley, is calculated as follows:

"On-target" variable reward	Multiplied by Company performance weighting of 90%	Multiplied by personal behaviours and delivery multiplier	Recommended total variable reward:
£350,000	x90%	x1.00	£315,000

A discretionary personal behaviours and performance multiplier of 1.00 has been applied in recognition of Mike Brierley's contribution to Metro Bank's success and growth during 2016. He has also had responsibility for supporting investor relations as the CFO of a newly listed FTSE 250 Company.

This is the total variable reward Mike Brierley will receive for the 2016 performance year as we do not operate any other awards or schemes such as Long Term Incentive Plans.

This is in line with the approach we take with all colleagues where a discretional multiplier of between 1 and 2 is applied to variable reward for all colleagues whose behaviours and delivery are as expected or better.

This variable reward will be awarded as per our policy:

Award	Amount (cash equivalent)	Method of award	Quantum
50% of variable reward awarded as one-year vesting share options and cash bonus	£315,000 x 50% = £157,500	50% paid as cash and 50% paid as options vesting 12 months after award	Cash £78,750[1,2]
			7,875 one-year vesting options[2] vesting fully on the first anniversary of grant
50% of variable reward awarded as share options vesting over five years	£315,000 x 50% = £157,500	Converted into share options at a current proposed fair value of £10[3]	15,750 five-year vesting options with the first vest being on the anniversary of grant and annually thereafter
Totals	**£315,000**	**Awarded as:**	**£78,750 cash[1]** **23,625 share options[3]**

1 This cash can be converted into immediate vesting share options via the Company Bonus Exchange scheme at a current proposed fair value of £10, i.e. 7,875 options.
2 All share option awards rounded to nearest 5 options and all cash rounded to nearest £5.
3 The final fair value for calculating share option numbers from the total variable reward will be approved by the Remuneration Committee after our annual results are published.
4 Any share options awarded will be granted at an option price based on the Volume Weighted Average Share Price ("VWAP") for MTRO for 30 March 2017.

There were no payments made during 2016 either through loss of office or to past Directors.

Non-Executive Directors' fees (audited)

The following sets out the amounts earned by the Non-Executive Directors during the same period[1]

	Vernon W. Hill, II		Stuart Bernau		Keith Carby		Roger Farah	
	2016	2015	2016	2015	2016	2015	2016	2015
Fees	**£285,000**	£285,000	**£77,500**	£55,000	**£60,000**	£45,000	**£50,625**	£32,500
Taxable benefits[2]	**£120,000**	£120,000	**£0**	£0	**£0**	£0	**£0**	£0
Total	**£405,000**	£405,000	**£77,500**	£55,000	**£60,000**	£45,000	**£50,625**	£32,500

	Howard Flight		Alastair (Ben) Gunn		Gene Lockhart		Sir Michael Snyder[3]	
	2016	2015	2016	2015	2016	2015	2016	2015
Fees	**£70,000**	£55,000	**£77,500**	£55,000	**£77,500**	£55,000	**£58,125**	£9,801
Taxable benefits	**£0**	£0	**£0**	£0	**£0**	£0	**£0**	£0
Total	**£70,000**	£55,000	**£77,500**	£55,000	**£77,500**	£55,000	**£58,125**	£9,801

1 These figures include all fees paid to the Senior Independent Director and to Non-Executive Directors for Board Committee memberships and Committee chairmanships – see table below.
2 This is a gross allowance which is paid to the Chairman monthly via PAYE as a contribution towards his travel to/from the UK and accommodation and subsistence whilst here. He does not claim any expenses in relation to this.
3 Sir Michael Snyder joined the Board during 2015.

Fees are reviewed annually. The fees are benchmarked against financial services companies and other FTSE 250 companies and the new structure agreed at the time the Company was listed on the London Stock Exchange. Recommendations were put into effect from April 2016.

The Non-Executive Directors are paid a basic fee, with further fees payable to reflect Board Committee memberships and chairmanships and/or, additional responsibilities such as Senior Independent Director as follows:

Role	£'000
Non-Executive Director – basic fee	45
Senior Independent Director	30
Chairman of Audit Committee	20
Chairman of Nomination Committee	10
Chairman of Remuneration Committee[1]	10
Chairman of Risk Committee	20
Member of Audit Committee	10
Member of Nomination Committee	5
Member of Remuneration Committee[1]	5
Member of Risk Committee	10

1 These fees increase from 1 April 2017 – as outlined in the Statement by the Chairman of the Remuneration Committee.

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

Directors' shareholdings and outstanding options and awards (audited)

Executive Directors are not required to build up a holding of shares but it is in line with our approach to build up a holding of Share Awards. At least 75% of variable reward is deferred into Share Awards to support this.

No dividends or dividend equivalents are payable on any share options or on any unvested Share Awards held.

The table below shows, for each Executive Director, as at 31 December 2016:

- the total number of Share Awards, shares granted or interests in shares granted and the award price, if applicable; and
- the total number of outstanding Share Awards.

The table on pages 63 to 64 shows, for each Non-Executive Director, as at 31 December 2016:

- the total number of Share Awards, shares granted or interests in shares granted and the award price, if applicable; and
- the total number of outstanding Share Awards.

Note – we have not awarded share options to Non-Executive Directors since 2015 (relating to the 2014 performance year).

Vernon W. Hill, II

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[2]
CSOP2015	15,000	04/11/15	£16.00	31/10/16	31/10/20	3,000	0	£203,251
CSOP2014	60,000	31/10/14	£13.50	31/10/15	31/10/19	24,000	0	£963,003
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	1,500	0	£87,750
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0	£39,100
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0	£82,200
Total	**86,000**					**34,500**	**0**	**£1,375,304**

Craig Donaldson

Scheme name	Share options granted	Shares awarded	Award date	First vesting date	Last vesting date	Award price	No. of share options vested	No. of shares vested	No. of Share Awards exercised	Indicative value[2]
CSOP2016 Pension Exchange[1]	4,541		04/03/16	21/03/16	21/03/16	£20.00	4,541		0	£43,367
CSOP2015	30,000		04/11/15	31/10/16	31/10/20	£16.00	6,000		0	£406,502
CSOP2015 Bonus Exchange	20,000		20/03/15	20/03/15	20/03/15	£14.00	20,000		0	£311,001
CSOP2014	130,000		31/10/14	31/10/15	31/10/19	£13.50	52,000		0	£2,086,507
CSOP2014 Bonus Exchange	13,077		21/03/14	21/03/14	21/03/14	£13.00	13,077		0	£216,425
CSOP2013	30,000		11/11/13	11/11/16	11/11/18	£12.00	9,000		0	£526,502
CSOP2012	50,000		31/10/12	31/10/13	31/10/15	£10.00	50,000		0	£977,503
CSOP2011	11,000		07/10/11	07/10/12	07/10/14	£9.00	11,000		0	£226,051
Listing awards		55,459	04/03/16					11,091	0	£1,638,816
Total	**288,618**	**55,459**					**165,618**	**11,091**	**0**	**£6,432,674**

Mike Brierley

Scheme name	Share options granted	Shares awarded	Award date	First vesting date	Last vesting date	Award price	No. of share options vested	No. of shares vested	No. of Share Awards exercised	Indicative value[2]
CSOP2015	15,000		04/11/15	31/10/16	31/10/20	£16.00	3,000		0	£203,251
CSOP2015 Bonus Exchange	12,637		20/03/15	20/03/15	20/03/15	£14.00	12,637		0	£196,506
CSOP2014	32,500		31/10/14	31/10/15	31/10/19	£13.50	13,000		0	£521,627
CSOP2013	14,000		11/11/13	11/11/16	11/11/18	£12.00	4,200		0	£245,701
CSOP2012	10,000		31/10/12	31/10/13	31/10/15	£10.00	10,000		0	£195,501
CSOP2011	5,000		07/10/11	07/10/12	07/10/14	£9.00	5,000		0	£102,750
Listing awards		32,054	04/03/16					6,410	0	£947,197
Total	**89,137**	**32,054**					**47,837**	**6,410**	**0**	**£2,412,533**

1 No share options in relation to variable pay were awarded to Craig Donaldson in 2016. These options were awarded via salary sacrifice in exchange for Craig Donaldson's pension contribution cash alternative.

2 Indicative value is based on Volume Weighted Average Price for Metro Bank PLC shares on 30 December 2016 of 2,955.0052p. It includes all granted Share Awards still outstanding plus any exercised during 2016.

Alastair (Ben) Gunn

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	1,500	0	£101,625
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	6,000	0	£240,751
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	1,500	0	£87,750
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0	£39,100
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0	£82,200
Total	**33,500**					**15,000**	**0**	**£551,426**

Stuart Bernau

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	1,500	0	£101,625
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	6,000	0	£240,751
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	1,500	0	£87,750
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	2,000	£26,500
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	4,000	£45,200
Total	**33,500**					**15,000**	**6,000**	**£501,826**

Gene Lockhart

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	1,500	0	£101,625
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	6,000	0	£240,751
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	1,500	0	£87,750
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0	£39,100
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0	£82,200
Total	**33,500**					**15,000**	**0**	**£551,426**

Howard Flight

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	1,500	0	£101,625
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	6,000	0	£240,751
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	1,500	0	£87,750
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0	£39,100
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0	£82,200
Total	**33,500**					**15,000**	**0**	**£551,426**

Keith Carby

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	1,500	0	£101,625
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	6,000	0	£240,751
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	1,500	0	£87,750
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0	£39,100
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0	£82,200
Total	**33,500**					**15,000**	**0**	**£551,426**

Roger Farah

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	1,500	0	£101,625
Total	**7,500**					**1,500**	**0**	**£101,625**

1 Indicative value is based on Volume Weighted Average Price of Metro Bank PLC shares on 30 December 2016 of 2,955.0052p.

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2016

Michael Snyder

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of Share Awards exercised	Indicative value[1]
CSOP2015	5,000	04/11/15	£16.00	31/10/16	31/10/20	1,000	0	£67,750
Total	**5,000**					**1,000**	**0**	**£67,750**

1 Indicative value is based on Volume Weighted Average Price of Metro Bank PLC shares on 30 December 2016 of 2,955.0052p.

The proposed share option awards to be made in 2017 in respect of the 2016 performance year are already included in the single figure table for 2016 variable pay in the table above and are as follows[1]:

Vesting period	Craig Donaldson	Mike Brierley
Immediate[1]	16,819	7,875
After one year	16,819	7,875
After five years	33,637	15,750
Total[2]	**67,275**	**31,500**

1 This assumes the Director decides to exchange their cash bonus in its entirety for share options.
2 This is estimated. The final amount will be approved by the Remuneration Committee after the Company's annual results are published.

Shareholding

These are the total shareholdings as at 31 December 2016 for each of the Non-Executive Directors and Executive Directors and any related connected persons. This will not include share options, except where these have been converted into shares by the Director.

There was no movement in any share interests between the end of the year and 23 February 2017.

Director	Holding	Number of shares	Percentage of issued share capital
Vernon W. Hill, II	Held directly	2,869,912	5.67
Vernon W. Hill, II	Held indirectly	1,689,319	
Craig Donaldson[1]		288,342	0.36
Michael Brierley[2]		105,165	0.13
Stuart Bernau		57,654	0.08
Keith Carby		178,223	0.22
Lord Flight		39,920	0.05
Alastair (Ben) Gunn		69,364	0.08
Gene Lockhart		77,689	0.10
Roger Farah		650,523	0.81
Sir Michael Snyder		12,500	0.02
Total		**6,044,591**	**7.52**

1 44,368 of Craig Donaldson's shares which were awarded in connection with the Listing have not yet vested and are conditional on his ongoing employment with Metro Bank.
2 25,644 of Mike Brierley's shares which were awarded in connection with the Listing have not yet vested and are conditional on his ongoing employment with Metro Bank

Dilution limits

The rules of the Metro Bank PLC Deferred Variable Reward Plan contains limits on the dilution of capital. These limits are monitored to ensure that we do not exceed 10% of the issued share capital in any rolling ten-year period.

CEO reward v. employee reward

The table below sets out the percentage change between the 2015 and 2016 years in salary and variable reward.

% change 2015–2016[1]	Median		Average	
Employee group	FTE salary	Variable reward	FTE salary	Variable reward
All employees[2]	14.7%	18.8%	9.0%	-25.2%
CEO	19.3%	-67.9%	19.3%	-67.9%
Executive Directors	21.2%	-70.1%	21.2%	-70.1%
Executive Leadership Team	13.2%	-55.5%	18.7%	-61.3%

1 **Year-on-year change in variable reward 2015–2016**
Average and median variable reward has reduced from 2015 to 2016 for some employee groups as a result of the one-off awards for the Listing of the Company on the London Stock Exchange which were granted to certain employees and the Executive Directors for 2015.

2 **Colleagues included in data**
Due to the significant growth at Metro Bank, data has been calculated using the same colleagues over the two-year period. This only includes colleagues who were employed by Metro Bank on or before 1 January 2015 and still employed on or after 31 December 2016. Any colleagues who joined or left the Bank within this period have been excluded from the analysis.

The ratio of CEO salary versus average for all employees was 15.63 in 2016 (2015: 14.28).

Benefits

Private Medical Insurance ("PMI")

All colleagues are eligible for PMI funded at different rates of cover depending on their level of seniority within the Company. The maximum benefit available, which all the Executive Directors and Executive Leadership Team receive, is full family cover. The cost of this for each of the Executive Directors in 2016 was £1,072. The cost in 2015 was £1,105. As a comparison, the cost of single cover was £429 in 2016 and £442 in 2015.

Life assurance

All colleagues, including the Executive Directors, receive a benefit of death in service life cover of four times their base salary. This is a Group scheme.

Income protection

The two Executive Directors receive cover for income protection. This is a legacy scheme and is not offered to any other employees with the exception of one member of the Executive Leadership Team. It would not be provided to any new Executive Directors. The cost in 2016 for the Executive Directors was £1,386 for Craig Donaldson and £4,275 for Mike Brierley. The cost in 2015 was £1,521 for Craig Donaldson and £3,463 for Mike Brierley.

DIRECTORS' REMUNERATION REPORT 2016 CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2016

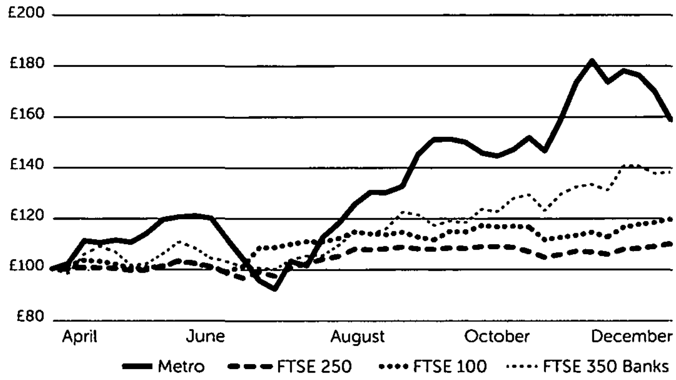
Pension contributions
The following shows the minimum and maximum employer pension contributions payable by Metro Bank year-on-year.

	2016		2015		% change	
Employer contribution as a % of salary	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
CEO	**10%**	**10%**	10%	10%	0%	0%
Executive Directors	**10%**	**10%**	10%	10%	0%	0%
Executive Leadership Team	**10%**	**10%**	10%	10%	0%	0%
Senior leaders and experts	**7%**	**10%**	6%	10%	17%	0%
Managers and specialists	**6%**	**8%**	5%	8%	20%	0%
Entry-level roles	**5%**	**6%**	4%	6%	25%	0%

Relative importance of spend on pay
The Company has made no distributions by way of dividend or share buy-back during the relevant year, or made any other significant distributions, and therefore considers that at this time there is no information or data which would assist shareholders in understanding the relative importance.

Total shareholder return
The chart shows Metro Bank's total shareholder return ("TSR") relative to the FTSE 250, FTSE 100 and the FTSE 350 banks (which is the capitalisation-weighted index of all bank stocks in the FTSE 100 and FTSE 250). We believe the broad equity market is a more relevant reference point rather than financial services only, where growth in the comparator group may be limited.

This chart shows the total return to Metro Bank investors since the Bank's Listing on the London Stock Exchange in March 2016, compared with the total return of an investment made in the FTSE 250, FTSE 100 or FTSE 350 over the same period assuming an initial investment of £100.



Implementation of policy in 2017
In 2017, the Remuneration policy will be implemented as described. The weighting of targets for variable reward (cash bonus and share options) for the 2017 year will be as follows:

	Weightings for each quadrant
Financial	30%
Risk	20%
Customer	35%
People and culture	15%
Totals	**100%**

The actual targets are undisclosed as they are considered commercially sensitive. Actual targets will be disclosed in the Implementation Report for 2017.

The total variable reward opportunity (combined cash bonus and share options) for 2017, expressed as a percentage of 2017 salary, is as follows:

Director	Minimum variable reward	On-target variable reward	Maximum variable reward
Craig Donaldson	0%	100%	200%
Mike Brierley	0%	100%	200%

Further information on how the policy will be implemented in 2017 are set out in the Committee Chairman's letter.

As mentioned, we are committed to providing transparency in decision-making in respect of variable reward and will disclose historic targets and measures together with information relating to performance against those targets in the annual report on remuneration for the relevant year, except to the extent that this information is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

STATEMENT OF VOTING AT THE ANNUAL GENERAL MEETING

The Company will be proposing resolutions to shareholders in respect of the Remuneration policy, the Remuneration Committee Chair's statement and the annual report on remuneration for the first time at the Annual General Meeting to be held on 25 April 2017. The percentage of votes cast for and against and the number of votes withheld will therefore be reported in the Remuneration report for 2017.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion
In our opinion:
- the Metro Bank PLC 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 2016 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 ("EU");
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited
The financial statements, included within the Annual Report, which comprise:
- the consolidated and Company balance sheets as at 31 December 2016;
- 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.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Our audit approach
Overview

Materiality	Overall Group materiality: £2.0 million, which represents 5% of the average loss before tax for the last three years. Using an averaging method in place of a single year's result provides a more representative materiality threshold due to variation in results experienced during the period. Profit or loss before tax is a key performance indicator for the Group and a key measure for the primary users of the financial statements.
Audit scope	The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud or error). The Group is composed of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited. We performed audit procedures over reporting entities considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances), using the materiality level set out above. We also performed other audit procedures including testing information technology general controls and controls over key outsourced functions, to mitigate the risk of material misstatement.
Areas of focus	The areas of focus for our audit comprised: • impairment losses on loans and advances to customers; • recognition of revenue on loans; and • recognition of deferred tax asset in respect of trading tax losses.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit. All of these areas of focus were discussed with the Audit Committee. Their report on those matters that they considered to be significant financial statement reporting issues is set out on pages 43 to 46.

Area of focus	How our audit addressed the area of focus
Impairment losses on loans and advances to customers We focused on this area because management make significant judgements over both the timing of recognition of impairment provisions and the estimation of the size of any such provision. Management estimate specific impairment provisions on individually significant balances, typically corporate loans. A collective model based provision is then estimated for all other exposures, both retail and any corporate, not subject to a specific provision. The collective model approach underpins the material portion of the Group's impairment provisions. We focused our audit on the following areas: • The identification of impairment events, which differs depending on the type of lending product and customer, including how unidentified impairment (customers that have had a loss event that has not yet manifested itself in a missed payment or other indicator) and any forbearance are taken into account. • The key assumptions and judgements made by management that underlie the calculation of provisions. For example, the probability of default, the valuation of collateral held for secured lending and the expected future cash flows from corporate loan customers.	We understood and tested the design and operating effectiveness of the controls over data and calculations used in the provisioning process. These controls included those over: • the identification of which loans and advances were impaired; • the transfer of data from source systems to impairment models and model output to the general ledger; • the governance over the impairment processes; and • the calculation of the impairment provisions. We determined that these controls were designed, implemented and operated effectively and therefore we determined that we could place reliance on them for the purposes of our audit. In addition we performed the following substantive procedures: **Specific impairment** For loans identified by management as potentially impaired we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, assessed critically the underlying assumptions and corroborated these to supporting evidence. From the testing performed we determined whether the specific impairment provisions made were reasonable. We found no material exceptions. We examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate through reviewing information such as the counterparty's payment history and performance of the business during the year. We did not find identify any evidence of an event that would require an impairment review to be performed. **Modelled impairment** We tested the completeness and accuracy of data from underlying systems used in the models including the "bucketing" into delinquency bandings. We also critically assessed and tested the key underlying assumptions used by management, and performed sensitivity analysis. Based on the evidence obtained we found that the impairment model assumptions were reasonable.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC CONTINUED

Area of focus	*How our audit addressed the area of focus*
Recognition of revenue on loans We focused on this area as it is the primary source of income for the Group. Interest income on loans is recognised using the effective interest rate method which spreads directly attributable cash flows, including transaction costs, over the loans' expected lives. The expected life assumptions utilise repayment profiles to represent how customers are expected to repay. The Group has limited historical experience to support these profiles and therefore management must apply judgement, in addition to any historical information available.	We assessed and tested the design and operating effectiveness of the controls directly associated with the calculation and reporting of interest income on loans. These controls included: • accurate input of loan data into core systems; • appropriate authorisation of amendments to data; and • determination and approval of the assumptions used in the effective interest rate calculations. We determined that these controls were designed, implemented and operating effectively and therefore we determined that we could place reliance on them for the purposes of our audit. We assessed management's effective interest rate calculations through stressing the assumptions applied and utilising external benchmarks to ascertain the appropriateness of the key assumptions used. We found no material exceptions in these tests.
Recognition of deferred tax asset in respect of trading tax losses The recognition of a deferred tax asset in respect of tax losses is permitted only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. When considering the availability of future taxable profits, judgement is required when assessing projections of future taxable income, and the business plans and forecasts supporting these. In view of the loss making history of the Group, convincing evidence is required to be presented by the Directors to support recognition of the deferred tax asset.	We reviewed the Group's business plans and forecasts and assessed the forecast results by challenging both the underlying and economic assumptions, focusing on those directly impacting the projections of future taxable income. These assumptions included loan and deposit growth, and loan performance over the period. We also used our independent benchmarking data to compare a number of the economic assumptions to external data sources where possible, and also assessed the accuracy of previous forecasts. We reviewed sensitivity analysis performed by management, looking at the impact on recovery of the asset under varying scenarios. In view of the loss making history of the Group, we have also applied our professional scepticism in considering whether the evidence presented by management is convincing, as is required under accounting standards. We concluded that management's judgements in respect of the Group's deferred tax assets are supportable in the context of the information currently available.

How we tailored our audit scope
We tailored the scope of our audit to ensure that we obtained sufficient and appropriate audit evidence to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group is composed of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited. The consolidated financial statements are a consolidation of these operating entities. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed over the individual operating entities by us, as the Group engagement team. Any operating entities which were considered individually financially significant in the context of the Group's consolidated financial statements were considered full scope components. We also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Some account balances were audited centrally by us.

This approach gave us coverage of over 98% of Group total assets. Audit coverage on account balances in the consolidated income statement range between 90% and 100%. All remaining balances within operating entities which were neither inconsequential nor individually financially significant were within our audit scope, with the risk of material misstatement mitigated through audit procedures including testing of entity level controls, information technology general controls and Group and component level analytical review procedures.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual account balances and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£2.0 million (2015: £2.4 million)
How we determined it	5% of three years' average loss before tax
Rationale for benchmark applied	The use of 5% of profit or loss before tax is a generally accepted auditing practice for a profit-oriented group. We have used the average loss before tax over the last three years (2014 to 2016) in place of a single year's result to provide a more representative materiality threshold due to the variation in results experienced during the period. This approach is consistent with that used in the prior year.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100k (2015: £120k) as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 35, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and the Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed.

As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are no guarantee as to the Group's and Company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information
Companies Act 2006 opinion
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; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK and Ireland) reporting
Under ISAs (UK and Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report arising from this responsibility.
The statement given by the Directors on page 45, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
The section of the Annual Report on pages 43 to 46, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC CONTINUED

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the viability of the Group
Under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

The Directors' confirmation on pages 24 to 27 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
The Directors' explanation on page 27 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group, set out on page 27. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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 Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
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.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate governance statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

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 36, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the Group'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

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.

Darren L Meek

Darren L Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Interest income	2	**213,486**	125,199
Interest expense	3	**(59,246)**	(36,326)
Net interest income		**154,240**	88,873
Fee and commission income	4	**22,189**	15,713
Net gains on sale of investment securities		**5,391**	6,377
Other income	5	**13,286**	9,237
Total income		**195,106**	120,200
Operating expenses	6	**(179,767)**	(141,563)
Depreciation and amortisation	12, 13	**(22,379)**	(18,195)
Cost associated with Listing		**(5,137)**	(1,465)
Impairment of property, plant and equipment and intangible assets	12, 13	**(315)**	(8,744)
Total operating expenses		**(207,598)**	(169,967)
Credit impairment charges		**(4,706)**	(7,030)
Loss before tax		**(17,198)**	(56,797)
Taxation	9	**445**	7,600
Loss for the year		**(16,753)**	(49,197)
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 gains/(losses)		**13,937**	(1,327)
– fair value gains transferred to the income statement on disposal		**(5,391)**	(6,377)
Total other comprehensive income/(expense)		**8,546**	(7,704)
Total comprehensive loss for the year		**(8,207)**	(56,901)
Loss per share – basic and diluted (pence)		**(22)**	(83)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	31 December 2016 £'000	31 December 2015 £'000
Assets			
Cash and balances with the Bank of England		**434,612**	217,900
Loans and advances to banks		**65,816**	64,248
Loans and advances to customers	10	**5,865,370**	3,542,548
Available-for-sale investment securities	11	**604,127**	363,807
Held to maturity investment securities	11	**2,622,588**	1,635,985
Property, plant and equipment	12	**246,690**	165,257
Intangible assets	13	**92,515**	54,243
Prepayments and accrued income	14	**43,000**	30,456
Deferred tax asset	9	**56,279**	53,053
Other assets	15	**26,291**	20,525
Total assets		**10,057,288**	6,148,022
Liabilities			
Deposits from customers		**7,950,579**	5,107,656
Deposits from central banks		**543,000**	–
Repurchase agreements		**653,091**	561,778
Other liabilities	16	**106,083**	71,413
Total liabilities		**9,252,753**	5,740,847
Equity			
Called up share capital	17	**–**	–
Share premium account	17	**1,027,645**	629,304
Retained earnings	19	**(230,193)**	(213,440)
Other reserves		**7,083**	(8,689)
Total equity		**804,535**	407,175
Total equity and liabilities		**10,057,288**	6,148,022

The accounting policies, notes and information on pages 81 to 111 form part of the financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 2 March 2017 and were signed on its behalf by:

Vernon W. Hill, II
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Available-for-sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance as at 1 January 2016	**–**	**629,304**	**(213,440)**	**(12,018)**	**3,329**	**407,175**
Net loss for the year	–	–	**(16,753)**	–	–	**(16,753)**
Other comprehensive income, net of tax, relating to available for sale investments	–	–	–	**8,546**	–	**8,546**
Total comprehensive income	–	–	**(16,753)**	**8,546**	–	**(8,207)**
Share issue	–	**403,572**	–	–	–	**403,572**
Cost of share issue	–	**(5,231)**	–	–	–	**(5,231)**
Share options at fair value	–	–	–	–	**7,226**	**7,226**
Balance as at 31 December 2016	**–**	**1,027,645**	**(230,193)**	**(3,472)**	**10,555**	**804,535**
Balance as at 1 January 2015	–	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	–	–	–	–	–	–
Cost of 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
Notes	17	17	19			

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(17,198)**	(56,797)
Adjustments for:			
Impairment and other write-offs of property, plant and equipment and intangible assets		**793**	8,744
Depreciation and amortisation of intangible and tangible assets	12, 13	**22,379**	18,195
Share option charge		**1,873**	1,675
Gain on sale of securities and fair value gains on derivatives		**(5,376)**	(6,374)
Accrued interest on and amortisation of investment securities		**(4,152)**	8,510
Changes in operating assets		**(2,341,143)**	(1,970,639)
Changes in operating liabilities		**3,511,726**	2,542,722
Net cash inflows from operating activities		**1,168,902**	546,036
Cash flows from investing activities			
Sales of investment securities		**2,196,953**	910,546
Purchase of investment securities		**(3,403,039)**	(1,310,529)
Purchase of property, plant and equipment	12	**(97,828)**	(49,668)
Proceeds from sale of property, plant and equipment and intangible assets		**4**	–
Purchase and development of intangible assets	13	**(45,053)**	(29,907)
Net cash outflows from investing activities		**(1,348,963)**	(479,558)
Cash flows from financing activities			
Share issues	17	**403,572**	–
Cost of share issues	17	**(5,231)**	–
Net cash inflows from financing activities		**398,341**	–
Net increase/(decrease) in cash and cash equivalents		**218,280**	66,478
Cash and cash equivalents at start of year		**282,148**	215,670
Cash and cash equivalents at end of year		**500,428**	282,148
Loss before tax includes:			
Interest received		**207,678**	121,316
Interest paid		**(53,246)**	(31,058)
Cash and cash equivalents comprise:			
Cash and balances with the Bank of England		**434,612**	217,900
Loans and advances to banks		**65,816**	64,248
		500,428	282,148

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2016

	Notes	31 December 2016 £'000	31 December 2015 £'000
Assets			
Cash and balances with the Bank of England		**434,612**	217,900
Loans and advances to banks		**64,368**	66,815
Loans and advances to customers	10	**5,705,961**	3,423,109
Available-for-sale investment securities		**604,127**	363,807
Held to maturity investment securities		**2,622,588**	1,635,985
Property, plant and equipment		**246,663**	165,224
Investment in subsidiaries		**15,000**	15,000
Intangible assets	13	**87,072**	49,648
Prepayments and accrued income	14	**40,398**	28,646
Deferred tax asset		**56,436**	53,073
Other assets	15	**169,776**	117,456
Total assets		**10,047,001**	6,136,663
Liabilities			
Deposits from customers		**7,950,579**	5,107,131
Deposits from central banks		**543,000**	–
Repurchase agreements		**653,091**	561,778
Other liabilities	16	**101,353**	63,733
Total liabilities		**9,248,023**	5,732,642
Equity			
Called up share capital	17	**–**	–
Share premium	17	**1,027,645**	629,304
Retained earnings[1]	19	**(235,750)**	(216,594)
Other reserves		**7,083**	(8,689)
Total equity		**798,978**	404,021
Total equity and liabilities		**10,047,001**	6,136,663

1 The Company loss for the year was £19.2 million (2015: loss of £50.4 million).

These financial statements were approved and authorised for issue by the Board of Directors on 2 March 2017 and were signed on its behalf by:

Vernon W. Hill, II
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Available-for-sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance as at 1 January 2016	**–**	**629,304**	**(216,594)**	**(12,018)**	**3,329**	**404,021**
Net loss for the year	**–**	**–**	**(19,156)**	**–**	**–**	**(19,156)**
Other comprehensive income, net of tax, relating to available for sale investments	**–**	**–**	**–**	**8,546**	**–**	**8,546**
Total comprehensive income	**–**	**–**	**(19,156)**	**8,546**	**–**	**(10,610)**
Share issue	**–**	**403,572**	**–**	**–**	**–**	**403,572**
Cost of share issue	**–**	**(5,231)**	**–**	**–**	**–**	**(5,231)**
Share options at fair value	**–**	**–**	**–**	**–**	**7,226**	**7,226**
Balance as at 31 December 2016	**–**	**1,027,645**	**(235,750)**	**(3,472)**	**10,555**	**798,978**
Balance as at 1 January 2015	–	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	–	–	–	–	–	–
Cost of 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
Notes	17	17	19			

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

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(20,541)**	(58,079)
Adjustments for:			
Impairment and other write-offs of property, plant and equipment and intangible assets		**794**	8,744
Depreciation and amortisation of intangible and tangible assets		**22,302**	18,103
Share option charge		**1,873**	1,675
Gain on sale of securities and fair value gains on derivatives		**(5,376)**	(6,374)
Accrued interest on and amortisation of investment securities		**(4,152)**	8,511
Changes in operating assets		**(2,346,135)**	(1,964,333)
Changes in operating liabilities		**3,515,205**	2,540,961
Net cash flows from operating activities		**1,163,970**	549,207
Cash flows from investing activities			
Sales of investment securities		**2,196,953**	910,546
Purchase of investment securities		**(3,403,039)**	(1,310,529)
Purchase of property, plant and equipment		**(97,816)**	(49,632)
Purchase and development of intangible assets	13	**(44,144)**	(29,907)
Net cash flows from investing activities		**(1,348,046)**	(479,522)
Cash flows from financing activities			
Share issues	17	**403,572**	–
Cost of share issues	17	**(5,231)**	–
Net cash flows from financing activities		**398,341**	–
Net (decrease)/increase in cash and cash equivalents		**214,265**	69,685
Cash and cash equivalents at start of year		**284,715**	215,030
Cash and cash equivalents at end of year		**498,980**	284,715
Loss before tax includes:			
Interest received		**195,157**	113,034
Interest paid		**(53,246)**	(31,058)
Cash and cash equivalents comprise:			
Cash and balances with the Bank of England		**434,612**	217,900
Loans and advances to banks		**64,368**	66,815
		498,980	284,715

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

1.1 General information

Metro Bank PLC ("the Company") together with its subsidiaries ("the Group") provides retail and corporate banking services in the UK and is a public limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006 (Registration number 6419578). The address of the registered office is One Southampton Row, London WC1B 5HA.

Metro Bank was admitted to the premium listing segment of the Official List and to trading on the Main Market of the London Stock exchange on 10 March 2016.

1.2 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and the Company have the resources to continue in business for the foreseeable future.

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.

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.

1.3 Cash flow statement

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.

1.4 Changes in accounting policy and disclosures

As of the date of authorisation of the financial statements the following standards were in issue but not yet effective and have not been adopted early in these financial statements and are considered by management to have a material impact on the Group:

IFRS 9 "Financial Instruments", brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's ("IASB") project to replace IAS 39, and is effective for annual periods beginning on or after 1 January 2018. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

Management is currently working on a formal project to:

- review the classification and measurement of financial instruments under the requirements of IFRS 9;
- develop and validate a set of IFRS 9 models for calculating expected credit losses on the Group's loan portfolios; and
- implement internal governance processes which are appropriate for IFRS 9.

A detailed timetable has been prepared to ensure that all credit loss models are developed and tested in advance of 1 January 2018, and that systems have been updated to report internally and externally under IFRS 9. The project is currently on track. The impact on the Group's balance sheet and income statement on adoption of IFRS 9 is being assessed.

IFRS 16 "Leases" provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. IFRS 16 requires contracts that IAS 17 classifies as operating leases to be brought onto the balance sheet, using the finance lease approach already applied under IAS 17. 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 15 "Revenue from Contracts with Customers" is not considered to have a material impact on the Group.

1.5 Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is the Board of Directors.

The Board considers the results of the Group as a whole when assessing the performance of Group and allocating resources. Accordingly, the Group has a single operating segment.

The Group lends solely within the UK and, as such, no geographical analysis is required. Metro Bank is not reliant on any single customer.

1.6 Consolidation

The Group applies the acquisition method to account for business combinations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-Company transactions and balances are eliminated upon consolidation. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

These financial statements consolidate the results of the subsidiary companies set out in note 30.

1.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using pound Sterling, 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

Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a 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.

1.8 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.

1. Accounting policies continued

1.9 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". Credit impairment losses are 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 Group 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 Group 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 Group 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.

1.10 Financial liabilities

The Group'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.

1.11 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

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

1.13 Reclassification of financial assets

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

1.14 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.

1.15 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 Group 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.

1.16 Fee, commission and other income

Fees and commissions and other income are earned from a wide range of services provided by the Group 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 safe deposit boxes, account servicing fees or 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.

1. Accounting policies continued

1.17 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 Group 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 credit impairment charges while 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 Group 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.

1.18 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 employee share option plans is calculated at the grant date using a Black-Scholes model. The resulting cost is charged to the Group income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

1.19 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and balances held with the Bank of England.

1.20 Leases

The leases entered into by the Group 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

1.21 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment.

Property, plant and equipment is depreciated on a straight-line basis to its residual value using the following useful economic lives:

Leasehold improvements	Lower of the remaining life of the lease or the useful life of the asset
Freehold land	Not depreciated
Buildings	Up to 50 years
Fixtures and fittings and equipment	5 years
IT hardware	3 to 5 years

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.

All items of property, plant and equipment are reviewed annually for impairment.

1.22 Intangible assets

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset controlled by the Group and will generate future economic benefits in accordance with IAS 38.

Costs to establish feasibility or to maintain existing performance are recognised as an expense. Intangible assets are amortised on a straight-line basis in profit or loss using the following useful economic lives:

Core banking software used for recording banking transactions	20 years
Other banking software	3 to 10 years
Software licences	Licence period
Customer contracts	10 years

All intangible assets are reviewed annually for impairment.

1.23 Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, however it is reviewed for impairment on an annual basis. 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.

1.24 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 Group 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 and development expenditure.

1. **Accounting policies** continued

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.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

1.25 Employee benefits

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

1.26 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.

1.27 Critical accounting judgements and 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 Group'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 2016, the Group recognised a deferred tax asset (net) of £56.3 million (2015: £53.1 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 Group 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 Group 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 Group 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 and other expected cash flows. 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% or decreased to 9%, the impairment allowance would be an estimated £0.7 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 or decreased to £90,000, the impairment allowance would be an estimated £0.7 million lower or £2.9 million higher respectively.

(c) Effective interest rate

IAS 39 requires interest earned from loans and advances to customers to be measured at amortised cost using the effective interest rate method. Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate may therefore be affected by unexpected market movements resulting in altered customer behaviour and incorrect assumptions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. Accounting policies continued

- If the estimated life of retail and commercial mortgages were increased or decreased by 10%, the value of such loans on the balance sheet would be increased or decreased by £0.3 million.
- If the estimated life of corporate term loans were increased or reduced by 10%, the value of such assets on the balance sheet would be increased or decreased by £0.4 million.

2. Interest income

	2016 £'000	2015 £'000
Investment securities	**46,528**	28,119
Loans and advances to customers	**166,958**	97,080
Total interest income	**213,486**	125,199

3. Interest expense

	2016 £'000	2015 £'000
Interest on customer accounts	**48,481**	27,988
Interest on repurchase agreements	**4,900**	4,809
Other	**5,865**	3,529
Total interest expense	**59,246**	36,326

4. Fee and commission income

	2016 £'000	2015 £'000
Service charges and other fee income	**13,290**	9,072
Safe deposit box income	**7,012**	5,257
ATM and interchange fees	**1,887**	1,384
Total fee and commission income	**22,189**	15,713

5. Other income

	2016 £'000	2015 £'000
Gains on foreign currency transactions	**10,846**	6,846
Other	**2,440**	2,391
Total other income	**13,286**	9,237

6. Operating expenses

	2016 £'000	2015 £'000
People costs	**93,185**	74,418
Occupancy expense	**26,082**	22,577
Information technology costs	**14,274**	10,922
Marketing costs	**3,035**	3,467
Legal, regulatory and professional fees	**6,122**	4,502
Other expenses	**37,069**	25,677
Total operating expenses	**179,767**	141,563

7. People costs

	2016 £'000	2015 £'000
Wages and salaries	**77,954**	62,375
Social security costs	**8,304**	6,611
Other pension costs	**4,580**	3,757
Equity-settled share-based payments	**2,347**	1,675
Total	**93,185**	74,418

Share Awards were granted to key members of the management team in March 2016 in recognition of their significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange. The awards are accounted for under the requirements of IFRS 2 ("Share-based Payment"). Under this standard, the expense is recognised from the date when there was a shared understanding between parties of the terms of the award to be granted. This was considered to be in March 2016. To date, 20% of the award has vested (in March 2016) and the remaining 80% will vest annually on 30 April, 16% each year. The total expense in 2016 was £3,296,000; this expense is included in the income statement within costs associated with Listing.

7. People costs continued

The average monthly number of persons employed by the Group during the period was 2,129 (2015: 1,821).

	2016 £'000	2015 £'000
Client-facing	**1,400**	1,200
Non-client-facing	**729**	621
Total	**2,129**	1,821

Pension costs

The Group operates a defined contribution arrangement for employees. Payments were made amounting to £4.9 million (2015: £4.1 million) to employees' individual personal pension plans during the year.

8. Fees payable to the Group's Auditor

Fees payable to PricewaterhouseCoopers LLP ("PwC"):

	2016 £'000	2015 £'000
For Metro Bank's statutory audit	**865**	720
For additional amounts relating to the prior year statutory audit, arising due to the Listing	**214**	–
For the statutory audit of Metro Bank's subsidiaries	**37**	36
For the reporting accountant services provided in association with the Listing	**588**	702
For tax compliance services	**–**	56
For tax advisory services	**10**	14
For all other services	**60**	–
Total	**1,774**	1,528

9. Taxation

Tax credit/(charge) for the year	2016 £'000	2015 £'000
Current tax:		
UK Corporation Tax	**(177)**	–
Adjustment in respect of prior years	**–**	–
Total current tax	**(177)**	–
Deferred tax:		
Current year (charge)/credit	**(304)**	7,600
Adjustment in respect of prior years	**926**	–
Total deferred taxation	**622**	7,600
Total tax credit	**445**	7,600

Factors affecting the tax credit/(charge) for the year

Total tax paid in relation to income during the year was £nil (December 2015: £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:

	2016 £'000	2015 £'000
Loss before tax	**(17,198)**	(56,797)
Loss on ordinary activities multiplied by standard rate of Corporation Tax in the UK (20%)	**3,440**	11,359
Tax effects of:		
Expenses not deductible for tax purposes – Listing fees	**(368)**	(296)
Expenses not deductible for tax purposes – other	**(3,833)**	(453)
Adjustment in respect of prior years	**926**	–
Change in tax rates on the net deferred tax asset	**280**	(3,010)
Total tax credit	**445**	7,600

The Finance Bill 2016 was substantively enacted on 6 September 2015. The Act reduced the main rate of Corporation Tax to 17% with effect from 1 April 2020. This supersedes the 18% rate effective in the Finance (No.2) Act 2015.

In the 2016 Budget the Chancellor announced from 1 April 2017 there will be a new restriction on the amount of profit that can be offset by brought forward losses. The use of brought forward losses against current year profits will be subject to an annual allowance of £5 million per group and above this allowance there will be a 50% restriction in the profits that can be covered by losses brought forward. This planned legislation has not yet been substantively enacted and therefore does not impact Metro Bank at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. Taxation continued

Deferred tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted. 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 1.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Unused tax losses £'000	Available-for-sale securities £'000	Share-based payments £'000	Property, plant and equipment £'000	Intangible assets £'000	Total £'000
2016						
Deferred tax assets	**61,403**	**183**	**6,840**	**–**	**177**	**68,603**
Deferred tax liabilities	**–**	**(1,906)**	**(645)**	**(4,478)**	**(5,295)**	**(12,324)**
Deferred tax assets (net)	**61,403**	**(1,723)**	**6,195**	**(4,478)**	**(5,118)**	**56,279**
At 1 January 2016	**56,163**	**–**	**1,499**	**(1,861)**	**(2,748)**	**53,053**
Income statement	**6,267**	**–**	**(658)**	**(2,617)**	**(2,370)**	**622**
Other comprehensive income	**(1,027)**	**(1,723)**	**–**	**–**	**–**	**(2,750)**
Equity	**–**	**–**	**5,354**	**–**	**–**	**5,354**
At 31 December 2016	**61,403**	**(1,723)**	**6,195**	**(4,478)**	**(5,118)**	**56,279**
2015						
Deferred tax assets	56,163	–	1,499	–	–	57,662
Deferred tax liabilities	–	–	–	(1,861)	(2,748)	(4,609)
Deferred tax assets (net)	56,163	–	1,499	(1,861)	(2,748)	53,053
At 1 January 2015	46,611	–	176	(1,001)	(2,141)	43,645
Income statement	7,747	–	1,323	(860)	(607)	7,603
Other comprehensive income	1,805	–	–	–	–	1,805
At 31 December 2015	56,163	–	1,499	(1,861)	(2,748)	53,053

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

10. Loans and advances to customers and banks

	Group 31 December 2016 £'000	Group 31 December 2015 £'000	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Gross loans and advances to customers	**5,872,864**	3,549,331	**5,712,571**	3,426,689
Less: allowance for impairment	**(7,494)**	(6,783)	**(6,610)**	(3,580)
Net loans and advances to customers	**5,865,370**	3,542,548	**5,705,961**	3,423,109
Amounts include:				
Repayable on demand or at short notice	**49,215**	38,385	**53,218**	38,385

	Group 31 December 2016 £'000	Group 31 December 2015 £'000	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Individual (retail customers):				
Overdrafts	**66,088**	49,701	**66,088**	49,701
Credit cards	**7,369**	5,976	**7,369**	5,976
Term loans	**107,584**	63,793	**107,584**	63,793
Mortgages	**3,604,591**	2,156,419	**3,604,591**	2,156,419
Corporate:				
Overdrafts	**32,613**	24,566	**36,615**	24,568
Credit cards	**1,681**	887	**1,681**	887
Term loans	**1,874,104**	1,111,239	**1,874,104**	1,111,239
Asset and invoice finance	**164,295**	122,644	**–**	–
Senior secured lending	**14,539**	14,106	**14,539**	14,106
Gross loans and advances to customers	**5,872,864**	3,549,331	**5,712,571**	3,426,689

Loan asset credit quality

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 are a subset of collectively impaired loans and consist predominantly of retail loans that are 90 days or more past due.

	Group 2016		Company 2016	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due nor impaired	**5,762,719**	**65,816**	**5,603,481**	**64,368**
Past due but not impaired	**88,811**	**–**	**88,640**	**–**
Individually impaired	**6,555**	**–**	**5,671**	**–**
Portfolio impaired	**14,779**	**–**	**14,779**	**–**
Total	**5,872,864**	**65,816**	**5,712,571**	**64,368**
Less: allowance for impairment	**(7,494)**	**–**	**(6,610)**	**–**
Total	**5,865,370**	**65,816**	**5,705,961**	**64,368**
Individually impaired	**(1,825)**	**–**	**(941)**	**–**
Collectively impaired*	**(5,669)**	**–**	**(5,669)**	**–**
Total allowance for impairment	**(7,494)**	**–**	**(6,610)**	**–**

* 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Loans and advances to customers and banks continued

	Group 2015		Company 2015	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Neither past due 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 allowance for impairment	(6,783)	–	(3,580)	–

* 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.

	Group 31 December 2016 £'000	Group 31 December 2015 £'000	**Company 31 December 2016 £'000**	Company 31 December 2015 £'000
Allowance for impairment at 1 January	**(6,783)**	(5,439)	**(3,580)**	(3,298)
Write-offs	**3,483**	5,686	**797**	5,332
Balance sheet reclassification of operational loss provision	**924**	–	**924**	–
Increase in impairment allowance	**(5,118)**	(7,030)	**(4,751)**	(5,615)
Allowance for impairment at 31 December	**(7,494)**	(6,783)	**(6,610)**	(3,580)

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. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2016

	Group				**Company**			
	Mortgages £'000	**Corporate £'000**	**Other £'000**	**Total £'000**	**Mortgages £'000**	**Corporate £'000**	**Other £'000**	**Total £'000**
Past due less than 6 days	**15,994**	**45,237**	**958**	**62,189**	**15,994**	**45,237**	**958**	**62,189**
Past due 7–30 days	**5,859**	**14,710**	**1,984**	**22,553**	**5,859**	**14,710**	**1,984**	**22,553**
Past due 31–60 days	**2,051**	**96**	**631**	**2,778**	**2,051**	**96**	**631**	**2,778**
Past due 61–90 days	**599**	**60**	**461**	**1,120**	**599**	**60**	**461**	**1,120**
Over 90 days	–	**171**	–	**171**	–	–	–	–
Total	**24,503**	**60,274**	**4,034**	**88,811**	**24,503**	**60,103**	**4,034**	**88,640**

31 December 2015

	Group				Company			
	Mortgages £'000	Corporate £'000	Other £'000	Total £'000	Mortgages £'000	Corporate £'000	Other £'000	Total £'000
Past due less than 6 days	8,151	18,520	264	26,935	8,151	18,520	264	26,935
Past due 7–30 days	15,977	12,014	1,498	29,489	15,977	12,014	1,498	29,489
Past due 31–60 days	1,223	425	427	2,075	1,223	73	427	1,723
Past due 61–90 days	745	189	265	1,199	745	189	264	1,198
Over 90 days	–	335	–	335	–	–	–	–
Total	26,096	31,483	2,454	60,033	26,096	30,796	2,453	59,345

11. Investment securities

Group and Company

Fair values of investment securities held at fair value	Level 1 £'000	Level 2 £'000	Total £'000
Recurring fair value measurements			
As at 31 December 2016			
Financial investments: available-for-sale	**274,027**	**330,100**	**604,127**
As at 31 December 2015			
Financial investments: available-for-sale	189,309	174,498	363,807

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 relevant to the Group and Company 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).

Reclassifications between categories
On 31 May 2016, £25.4 million of financial assets classified as available-for-sale were reclassified as held to maturity. On 22 November 2016, £14.9 million of financial assets classified as available-for-sale were reclassified as held to maturity. The carrying amount (including accrued interest) and fair value of the assets at 31 December 2016 were as follows:

	Carrying amount £'000	Fair value £'000
At 31 December 2016	**40,329**	**40,872**

A £0.06 million fair value gain was recognised with respect to the reclassified assets in 2016; had these assets not been reclassified, a additional fair value gain of £0.55 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 2016 and 31 December 2016 ranged from 1.4% to 1.8%, with all cash flows expected to be recoverable.

At 31 December 2016, financial investments classified as held to maturity were as follows:

/	Carrying amount £'000	Fair value £'000
At 31 December 2016	**2,622,588**	**2,651,136**
At 31 December 2015	1,635,985	1,629,527

12. Property, plant and equipment

Group

	Leasehold improvements £'000	Freehold land and buildings £'000	Fixtures, fittings and equipment £'000	IT hardware £'000	Total £'000
Cost					
1 January 2016	**156,238**	**8,273**	**17,400**	**27,439**	**209,350**
Additions	**46,444**	**44,672**	**3,417**	**3,295**	**97,828**
Disposals	**–**	**–**	**–**	**(3)**	**(3)**
Transfers	**(31,626)**	**31,626**	**–**	**–**	**–**
31 December 2016	**171,056**	**84,571**	**20,817**	**30,731**	**307,175**
Accumulated depreciation					
1 January 2016	**17,110**	**–**	**7,920**	**19,063**	**44,093**
Impairments	**35**	**–**	**161**	**44**	**240**
Charge for the year	**6,800**	**1,000**	**2,834**	**5,054**	**15,688**
Other write-offs	**413**	**–**	**22**	**29**	**464**
Transfers	**(2,376)**	**2,376**	**–**	**–**	**–**
31 December 2016	**21,982**	**3,376**	**10,937**	**24,190**	**60,485**
Net book value	**149,074**	**81,195**	**9,880**	**6,541**	**246,690**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. Property, plant and equipment continued

	Leasehold improvements £'000	Freehold land and buildings £'000	Fixtures, fittings and equipment £'000	IT hardware £'000	Total £'000
Cost					
1 January 2015	119,026	8,273	12,580	22,832	162,711
Additions	38,503	–	4,844	6,321	49,668
Impairments	(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	11,197	–	5,069	14,250	30,516
Impairments	(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

The relevant disclosures for the Company have not been included on the basis they are not materially different from those of the Group.

Transfers represent costs associated with the improvements made to previously leased stores which have been purchased by the Group in the year.

13. Intangibles

Group	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
Cost				
1 January 2016	**4,140**	**600**	**56,745**	**61,485**
Additions	–	–	**45,053**	**45,053**
Disposals	–	–	**(1)**	**(1)**
31 December 2016	**4,140**	**600**	**101,797**	**106,537**
Amortisation				
1 January 2016	–	**145**	**7,097**	**7,242**
Impairments	–	–	**75**	**75**
Charge for the year	–	**60**	**6,631**	**6,691**
Other write-offs	–	–	**14**	**14**
31 December 2016	–	**205**	**13,817**	**14,022**
Net book value	**4,140**	**395**	**87,980**	**92,515**

Group	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
Cost				
1 January 2015	4,140	600	35,319	40,059
Additions	–	–	29,907	29,907
Impairments	–	–	(8,481)	(8,481)
31 December 2015	4,140	600	56,745	61,485
Amortisation				
1 January 2015	–	85	5,305	5,390
Impairments	–	–	(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

13. Intangibles continued

Company	2016 Software £'000	2015 Software £'000
Cost		
1 January	**56,745**	35,319
Additions	**44,144**	29,907
Impairments	**–**	(8,481)
31 December	**100,889**	56,745
Amortisation		
1 January	**7,097**	5,305
Impairments	**75**	(1,430)
Charge for the year	**6,631**	3,222
Other write-offs	**14**	–
31 December	**13,817**	7,097
Net book value	**87,072**	49,648

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 CGU; of the total balance of £4.1 million (2015: £4.1 million), £4.1 million, or 100% of the total, has been allocated to SME Invoice Finance Limited.

The recoverable amount of SME Invoice Finance Limited has 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 seven-year period and a discount rate of 10.55%. The long-term growth rate is consistent with external sources of information reviewed by management. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of SME Invoice Finance Limited to fall below the balance sheet carrying value. Seven years was used as the basis for discounted cash flow calculation to align with the 2016–2022 plan, prepared by management and approved by the Board, and used in decision-making. The plan is reviewed and updated annually.

14. Prepayments and accrued income

	Group 31 December 2016 £'000	Group 31 December 2015 £'000
Prepayments	**19,103**	13,636
Accrued income	**15,580**	8,998
VAT receivable	**7,597**	7,144
Other	**720**	678
Total prepayments and accrued income	**43,000**	30,456
Current portion	**43,000**	30,456
Non-current portion	**–**	–

	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Prepayments	**16,508**	11,844
Accrued income	**15,573**	8,980
VAT receivable	**7,597**	7,144
Other	**720**	678
Total prepayments and accrued income	**40,398**	28,646
Current portion	**40,398**	28,646
Non-current portion	**–**	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. Other assets

	Group 31 December 2016 £'000	Group 31 December 2015 £'000
Assets pledged as collateral	**11,733**	8,878
Other	**14,558**	11,647
	26,291	20,525
Current portion	**12,905**	11,715
Non-current portion	**13,386**	8,810

	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Assets pledged as collateral	**11,733**	8,878
Other	**14,586**	11,670
Amounts owed by Group undertakings	**143,457**	96,908
	169,776	117,456
Current portion	**156,353**	12,339
Non-current portion	**13,423**	105,117

16. Other liabilities

	Group 31 December 2016 £'000	Group 31 December 2015 £'000
Trade creditors	**2,161**	1,792
Other taxation and social security costs	**6,522**	6,592
Accruals and deferred income	**71,193**	45,412
Other liabilities	**26,207**	17,617
	106,083	71,413
Current portion	**96,709**	62,977
Non-current portion	**9,374**	8,436

	Company 31 December 2016 £'000	Company 31 December 2015 £'000
Trade creditors	**2,157**	1,589
Other taxation and social security costs	**6,276**	6,462
Accruals and deferred income	**71,012**	45,112
Other liabilities	**21,908**	10,570
	101,353	63,733
Current portion	**91,979**	55,297
Non-current portion	**9,374**	8,436

17. Called up share capital

As at 31 December 2016 the Group had 80.3 million A ordinary shares of 0.0001p (31 December 2015: 59.2 million) in issue.

In March 2016, the Group issued 20.0 million A ordinary shares of 0.0001p each, for consideration of £400.0 million. Related transaction costs of £5.2 million have been deducted from equity during the period.

Additionally, during the year the Group issued 1,132,142 A ordinary shares; of which 900,818 relate to conversion of 1 million B ordinary shares, 152,130 relate to executive Share Awards and 79,194 relate to the exercise of previously awarded share options. These transactions contributed £3.6 million to share premium.

	31 December 2016 £'000	31 December 2015 £'000
Called up ordinary share capital, issued and fully paid		
At beginning of period	–	–
Issued	–	–
At end of period	–	–

	31 December 2016 £'000	31 December 2015 £'000
Share premium account		
At beginning of period	**629,304**	629,304
Issued	**403,572**	–
Costs of shares issued	**(5,231)**	–
At end of period	**1,027,645**	629,304

18. Share options

The Group offers share options to Directors and employees. The exercise price of the granted options is equal to the estimated market price determined at the date of the grant. Options generally vest over five 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 Group has no legal or constructive obligation to repurchase or settle the options in cash.

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	2016		2015	
	Number of options '000	Weighted average exercise price £	Number of options '000	Weighted average exercise price £
Outstanding at 1 January	**2,571**	**13.70**	1,492	12.30
Granted	**630**	**20.00**	1,140	15.54
Exercised	**(162)**	**12.89**	–	–
Lapsed	**(132)**	**15.18**	(61)	13.73
Outstanding at 31 December	**2,907**	**15.04**	2,571	13.70
Exercisable at 31 December	**1,276**	**13.76**	N/A	N/A

The average share price during 2016 was 2,404.56p (2015: n/a). The number of share options outstanding at year end was as follows:

	2016		2015	
Exercise price	Number of options '000	Weighted average remaining contractual life years	Number of options '000	Weighted average remaining contractual life years
£9.00	**75**	**4.8**	91	5.8
£10.00	**167**	**5.8**	204	6.8
£12.00	**281**	**6.9**	306	7.9
£13.00	**82**	**7.2**	98	8.2
£13.50	**703**	**7.8**	745	8.8
£14.00	**226**	**n/a**	260	n/a
£16.00	**781**	**n/a**	867	n/a
£20.00	**592**	**9.3**	–	–
Total	**2,907**	**7.8**	2,571	8.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. Share options continued

The fair value of the options granted during the year is determined using a Black-Scholes valuation model and was £1.6 million (2015: £2.3 million) and is based on the following assumptions:

	2016 bonus exchange	2016 share options
Option grant		
Weighted average risk-free interest rate	**0.44%**	**0.61%**
Weighted average expected life	**2 years**	**3.25 years**
Weighted average expected volatility	**24.38%**	**25.71%**
Weighted average expected dividend yield	**nil**	**nil**
Weighted average share price	**£20.00**	**£20.00**
Weighted average exercise price	**£20.00**	**£20.00**

Expected volatility is a measure of the amount by which the Group's shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on a statistical analysis of the share prices of other high street banks.

19. Reconciliation of movements in retained earnings

	Group 2016 £'000	Group 2015 £'000
At 1 January	**(213,440)**	(164,243)
Loss for the year	**(16,753)**	(49,197)
At 31 December	**(230,193)**	(213,440)

	Company 2016 £'000	Company 2015 £'000
At 1 January	**(216,594)**	(166,147)
Loss for the year	**(19,156)**	(50,447)
At 31 December	**(235,750)**	(216,594)

20. Financial commitments

At 31 December 2016, Metro Bank had irrevocable undrawn loan facilities granted to retail and commercial customers of £382.2 million (2015: £332.5 million).

In addition, the Group has, as part of its retail and commercial operations, commitments of £156.2 million (2015: £96.0 million) 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 Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

21. Leasing commitments

Commitments under leases

The Group leases various offices and stores under non-cancellable operating lease arrangements. The total operating lease expenditure recognised in the statement of comprehensive income during the year was £17.1 million (2015: £15.1 million). 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:

	2016 £'000	2015 £'000
Due		
Within one year	**17,534**	16,304
Due in one to five years	**71,954**	60,828
Due in more than five years	**290,574**	249,763
	380,062	326,895

21. Leasing commitments continued

Future income due under non-cancellable operating leases

The Group leases out surplus space in some of its properties. The balances reflect the cash payments expected over the remaining non-cancellable term of each lease. Of the total below, £10.1 million (2015: £nil) relates to sub-letting of leased stores. During the year £631,000 (2015: £105,000) was recognised as rental income in the statement of comprehensive income.

	2016 £'000	2015 £'000
Receivable		
Within one year	**835**	178
Due in one to five years	**3,115**	895
Due in more than five years	**8,514**	697
	12,464	1,770

22. Financial instruments

The Group'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 Group's normal operations. The Group does not enter into transactions for speculative purposes and there are no instruments held for trading. From time to time, the Group may use interest rate derivatives such as swaps to manage part of its interest rate risk.

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

23. Credit risk

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

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

- Defining the Enterprise Risk Management structure and quantifying the Group 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/loss held by the Group against those assets, please refer to note 10.

The Group invests in high-quality liquid debt instruments as required by the Group's Securities Trading and Investment policy. The analysis below details the credit rating of the securities as at 31 December 2015 and 31 December 2016. No allowance for impairment or loss was held against any of these assets at 31 December 2015 or 31 December 2016.

Credit rating	*Designated* at fair value 2016 £'000	*Designated* at fair value 2015 £'000
AAA	**2,434,852**	1,312,838
AA- to AA+	**458,112**	319,524
A- to A+	**141,590**	156,409
Lower than A-	**192,161**	211,021
Total	**3,226,715**	1,999,792

The Group has pledged £2,725.0 million (2015: £1,023.0 million) of assets as encumbered collateral which can be called upon in the event of default. Of this, £2,062.0 million (2015: £1,023.0m) is made up of high-quality securities and £663.0 million (2015: £nil) is from the Group's own loan portfolio prepositioned with the Bank of England to support some of the Term Funding Scheme ("TFS") drawings.

£2,087.0 million (2015: £540.0 million) of this encumbered collateral is pledged to the Bank of England through the Bank's participation in the Funding for Lending Scheme ("FLS") and the TFS to support the £1,071.0 million (2015: £465.4 million) T-bills and £543.0 million (2015: £nil) of cash drawn down.

The remaining £638.0 million (2015: £483.0 million) is pledged with the Bank of England and market participants in the form of repo.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. Credit risk continued

Collateral held and other credit enhancements, and their financial effect

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

At 31 December 2016	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loans and advances to banks	**65,816**	**–**	**65,816**
Loans and advances to customers:			
– Loans to individuals (note 10)	**3,785,632**	**(3,615,433)**	**170,199**
– Loans to corporate entities (note 10)	**2,087,232**	**(1,566,236)**	**520,996**
Investment securities (note 11)	**3,226,715**	**–**	**3,226,715**
Other assets (note 15)	**26,291**	**–**	**26,291**
	9,191,686	**(5,181,669)**	**4,010,017**

Credit risk exposures relating to off-balance sheet items are as follows:

At 31 December 2016	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loan commitments and other credit related obligations	**538,506**	**–**	**538,506**
	9,730,192	**(5,181,669)**	**4,548,523**

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 10)	2,275,889	(2,221,469)	54,420
– Loans to corporate entities (note 10)	1,273,442	(1,055,255)	218,187
Investment securities (note 11)	1,999,792	–	1,999,792
Other assets (note 15)	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:

At 31 December 2015	Maximum exposure £'000	Collateral £'000	Net exposure £'000
Loan commitments and other credit related obligations	428,458	–	428,458
	6,062,354	(3,276,724)	2,785,630

As shown above, 65% (2015: 64%) of the total maximum exposure is derived from loans and advances to banks and customers; 35% (2015: 35%) represents investments in high-quality debt securities.

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 valuation of the collateral excludes any adjustments for obtaining and selling the collateral. 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.

	31 December 2016 £'000	31 December 2015 £'000
LTV ratio		
Less than 50%	**1,121,993**	594,444
51–70%	**1,635,626**	962,994
71–90%	**756,025**	495,921
91–100%	**41,224**	46,219
More than 100%	**49,723**	56,841
Total	**3,604,591**	2,156,419

23. Credit risk continued

Loans and advances to corporate customers

The general creditworthiness 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 Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Concentrations of credit risk

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

	2016		2015	
Industry types – commercial term loans	Gross balance £'000	Concentration %	Gross balance £'000	Concentration %
Real estate (rent, buy and sell)	**1,064,194**	**57%**	627,904	57%
Legal, accountancy and consultancy	**276,164**	**15%**	133,848	12%
Health and social work	**177,931**	**10%**	95,722	9%
Hospitality	**95,600**	**5%**	40,007	4%
Real estate (management of)	**90,240**	**5%**	46,707	4%
Construction	**58,204**	**3%**	39,116	4%
Retail	**37,009**	**2%**	80,030	7%
Investment and unit trusts	**20,448**	**1%**	–	–
Recreation, cultural and sport	**8,643**	**0%**	6,859	1%
Real estate (development)	**2,036**	**0%**	–	–
Education	**1,484**	**0%**	3,289	0%
Other	**42,151**	**2%**	37,757	3%
Total	**1,874,104**	**100%**	1,111,239	100%

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% is stable at 6%. 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 2016 £'000	31 December 2015 £'000
Total commercial lending	**2,087,232**	1,273,442
Percentage of total lending	**36%**	36%
Average DTV	**57%**	57%
DTV > 80%	**6%**	6%
NPL ("non-performing-loan") ratio*	**0.1%**	0.1%

* 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 relates 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 2016, the exposure from forbearance arrangements was £9.6 million (31 December 2015: £7.7 million).

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

- 75% (2015: 66%) of the debt securities are AAA rated and 14% (2015: 16%) are AA rated;
- 88% (2015: 92%) of loans and advances to customers are backed by collateral; and
- over 99% (2015: 99%) of the loans and advances portfolio are considered to be unimpaired.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24. Liquidity risk

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

The Group's Board of Directors sets the Group's risk appetite and policy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Asset and Liability Management Committee ("ALCO"). The Treasury function manages the Group's liquidity position on a day-to-day basis under the oversight of the CFO and ALCO. The Group's approach is to ensure that it can meet payments as they fall due – both in normal conditions and in the event of a severe liquidity stress, and that it can survive a severe liquidity stress event and continue as a going concern. The key elements of the Group'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 Group's liquidity stress scenarios;
- monitoring liquidity risk exposures on an ongoing basis under a variety of market-wide and idiosyncratic liquidity stress scenarios; and
- *maintaining a diversified funding base.*

Expected maturity dates of the Group'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 Group's operations and liquidity needs because of the stable deposit nature of the Group's business model.

The tables below set out the maturity structure of the Group'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.

	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
31 December 2016								
Cash and balances with the Bank of England	434,656	–	–	–	–	–	–	434,656
Loans and advances to banks	65,816	–	–	–	–	–	–	65,816
Loans and advances to customers	–	283,104	287,838	539,238	3,631,980	1,749,887	167,819	6,659,866
Investment securities	–	181,312	112,500	364,875	1,620,266	239,027	–	2,517,980
Total financial assets	500,472	464,416	400,338	904,113	5,252,246	1,988,914	167,819	9,678,318
Other assets	–	37,472	82	171	1,423	5,222	25,448	69,818
Total assets	500,472	501,888	400,420	904,284	5,253,669	1,994,136	193,267	9,748,136
Deposits from customers	(5,607,783)	(453,840)	(482,378)	(652,675)	(614,871)	–	(171,774)	(7,983,321)
Deposits from central banks	–	(299)	(544)	(1,235)	(554,424)	–	–	(556,502)
Repurchase agreements	–	(211,946)	(320,990)	(932)	(125,208)	–	–	(659,076)
Other liabilities	(618)	–	–	–	–	–	–	(618)
Total financial liabilities	(5,608,401)	(666,085)	(803,912)	(654,842)	(1,294,503)	–	(171,774)	(9,199,517)
Capital	–	–	–	–	–	–	–	–
Total liabilities	(5,608,401)	(666,085)	(803,912)	(654,842)	(1,294,503)	–	(171,774)	(9,199,517)
Cumulative liquidity gap	(5,107,929)	(5,272,126)	(5,675,618)	(5,426,176)	(1,467,010)	527,126	–	548,619

24. Liquidity risk continued

	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
31 December 2015								
Cash and balances with the Bank of England	217,900	–	–	–	–	–	–	217,900
Loans and advances to banks	64,248	–	–	–	–	–	–	64,248
Loans and advances to customers	–	220,180	163,034	314,439	2,239,748	1,109,481	83,852	4,130,734
Investment securities	–	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
Deposits from customers	(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	–	882,051

25. 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 while optimising the return on risk.

Investment price risk

The Group does not undertake proprietary trading activities and holds primarily high-grade investment securities which have been approved by ALCO. Management monitors the movements in the Group'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 Group's capital resources where negative. The table below is a projection of the impact on the market value of AFS securities held at the 2016 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 Group uses for calculating current fair values on its AFS investments.

Sensitivity of prices of investment securities to changes in yield curves	-200bps £'000	-100bps £'000	+100bps £'000	+200bps £'000
At 31 December 2016	**22,698**	**11,052**	**(10,497)**	**(20,473)**
At 31 December 2015	14,840	7,230	(6,880)	(13,420)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. Market risk continued

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 the timing of the interest rate repricing of its financial instrument assets and liabilities. The Group manages this risk by matching the timing of the interest rate repricing to within the Group's interest rate risk appetite. The Group seeks to do so primarily through the use of natural hedges, but may use derivatives for this purpose from time to time.

Metro Bank manages this risk within a risk appetite framework that is set and approved by the Board. Risk appetite is set for the market value of equity ("MVoE") and net interest income ("NII") sensitivities for defined stress scenarios. The position against each limit is reported monthly to the ALCO (with exceptions communicated immediately), and noted by the Risk Oversight Committee and the Board.

Interest rate risk

Supplementary limits are additionally set to capture any additional interest rate in the Bank's balance sheet. This includes the consideration of movements between LIBOR and the Bank of England base rate.

The tables below set out the interest rate risk repricing gaps of the Bank's balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods.

31 December 2016	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	–	–	–	–	–	65,816	65,816
Loans to customers	2,577,363	229,666	488,134	2,469,304	19,625	81,278	5,865,370
Other assets	3,069,473	1,565	81,185	577,511	56,847	339,521	4,126,102
Total assets	5,646,836	231,231	569,319	3,046,815	76,472	486,615	10,057,288
Deposits from customers	(3,781,029)	(606,297)	(649,191)	(633,188)	–	(2,280,874)	(7,950,579)
Other liabilities	(1,141,697)	(36,641)	(643)	(20,424)	–	(102,769)	(1,302,174)
Shareholders' funds	–	–	–	–	–	(804,535)	(804,535)
Total liabilities	(4,922,726)	(642,938)	(649,834)	(653,612)	–	(3,188,178)	(10,057,288)
Interest rate sensitivity gap	724,110	(411,707)	(80,515)	2,393,203	76,472	(2,701,563)	–
Cumulative gap	724,110	312,403	231,888	2,625,091	2,701,563	–	–

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
Deposits from customers	(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 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	–	–

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. The converse is true for a negative interest rate sensitivity gap.

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200bps increase £'000	200bps decrease (not floored at zero) £'000
At 31 December 2016	(3,244)	2,460
At 31 December 2015	471	(882)

26. 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.

	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 2016					
Assets					
Cash and balances with the Bank of England	**434,612**				**434,612**
Loans and advances to banks	**65,816**			**65,816**	**65,816**
Loan and advances to customers	**5,865,370**			**6,093,436**	**6,093,436**
Investment securities	**3,226,715**	**877,226**	**2,378,037**		**3,255,263**
Liabilities					
Deposits from customers	**7,950,579**			**7,946,687**	**7,946,687**
Deposits from central banks	**543,000**			**543,000**	**543,000**
Repurchase agreements	**653,091**				**653,091**
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

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.

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. Fair values approximate carrying amounts as their balances are generally short-dated.

(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) Deposits from central banks/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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. Related parties

Key management personnel

The Group'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 Group. The Directors and members of the Executive Leadership Team are considered to be the key management personnel for disclosure purposes.

Key management compensation

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

	2016 £'000	2015 £'000
Short-term benefits	**3,891**	3,205
Post-employment benefits	**–**	136
Share-based payment costs	**4,108**	990
Total	**7,999**	4,331

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost includes the IFRS 2 charge for the year associated with share options awarded in previous years. The 2016 cost includes the in-year IFRS 2 costs for Share Awards granted to selected key management personnel in recognition of their significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange.

Banking transactions with key management personnel

The Group 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 2016 were as follows:

	2016 £'000	2015 £'000
Loans payable to the Group		
Loans outstanding at 1 January	**2,529**	2,268
Loans relating to former key management personnel	**(529)**	(143)
Loans outstanding at 1 January for current key management personnel	**2,000**	2,125
Loans issued during the year	**1,250**	982
Loan repayments during the year	**(59)**	(578)
Loans outstanding at 31 December	**3,191**	2,529
Interest expense on loans payable to the Group	**82**	58

There were nine (31 December 2015: seven) loans outstanding at 31 December 2016 totalling £3,191,000 (31 December 2015: £2,529,000). Of these, six are residential mortgages, two are secured loans and one is an unsecured loan; all loans were provided on normal commercial terms.

In addition to the loans detailed above the Group has issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel. During the year there were 15 credit cards to senior management in issue (2015: 14) with all outstanding balances at the year end being repaid in January 2017. At 31 December 2016 one current account to key management personnel was overdrawn (2016: none).

Credit card balances outstanding at 31 December 2016 were as follows:

	2016 £'000	2015 £'000
Credit cards outstanding at 31 December	**10**	40

Deposit balances outstanding at 31 December 2016 were as follows:

	2016 £'000	2015 £'000
Deposits outstanding at 1 January	**4,544**	4,151
Net amounts deposited	**649**	393
Deposits outstanding at 31 December	**5,193**	4,544

27. Related parties continued

Other transactions with related parties

The following transactions were carried out with related parties:

	2016 £'000	2015 £'000
Purchases of services		
– Entity connected to key management personnel	**3,156**	2,307
– Amounts outstanding as at 31 December owed by Metro Bank	**382**	151

Architecture, design and branding services are provided to the Group 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 Group's Audit Committee using periodic benchmarking reviews conducted by independent third parties. The Audit Committee have concluded that 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 Group, including pre-design, architectural design, interior design, facilities coordination, 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 provide branding, marketing and advertising services to the Group. The current agreement will terminate on 31 March 2018.

28. Capital management

Capital is held by the Group 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 Group considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

The Group 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 Group's capital requirements, capital resources and capital adequacy over the planning period.

The Group 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 Leadership Team (chaired by the Chief Executive Officer). The key assumptions and risk drivers used to create the stress tests are regularly monitored and reported.

The Group 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 Group has complied with all externally imposed capital requirements to which it is subject.

Tier 1 capital	2016 £'000	2015 £'000
Ordinary share capital	**–**	–
Share premium	**1,027,645**	629,304
Retained earnings	**(230,193)**	(213,440)
Intangible assets	**(92,515)**	(54,243)
Deferred tax asset (CET1 element)	**(60,625)**	(53,053)
Other reserves	**7,083**	(8,689)
Total regulatory capital	**651,395**	299,879

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the period.

Diluted loss per share has been calculated based on the same loss attributable to ordinary equity holders of Metro Bank and the weighted average number of ordinary shares in issue after the effect of adjustment for potential dilutive ordinary shares, which comprise share options granted to colleagues. Potential ordinary shares should only be treated as dilutive when their conversion to ordinary shares results in a reduction in earnings per share or an increase in loss per share. As Metro Bank has a loss attributable to ordinary equity holders of Metro Bank in 2016 and 2015 for these years, the share options would be antidilutive, as they would reduce the loss per share. Therefore, they are disregarded in the calculation of dilutive earnings per share. However, the share options could potentially be dilutive in the future.

	2016	2015
Loss attributable to ordinary equity holders of Metro Bank	**(16,753)**	(49,197)
Weighted average number of ordinary shares in issue (£'000)	**76,791**	59,208
Basic and diluted loss per share (pence)	**(22)**	(83)

30. Investment in subsidiary undertakings

The Group had the following subsidiaries at 31 December 2016:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
SME Invoice Finance Limited	**UK**	**Invoice financing 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 between the Company and Group subsidiaries

	2016 £'000	2015 £'000
– Interest on inter-Company loan with SME Asset/Invoice Finance	**2,749**	1,724
– Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance	**143,457**	97,432

31. Country-by-Country Reporting

The Capital Requirements Regulations (Country-by-Country Reporting ("CBCR")) came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the EU Capital Requirements Directive IV ("CRD IV").

The objective of the CBCR requirement is to improve transparency and provide a requirement for institutions in scope to disclose, on a country-by-country basis, information on their activities, turnover, employees, profits and corporate taxes.

Metro Bank PLC and its subsidiaries are all UK registered entities. The Parent Company, Metro Bank PLC, is a credit institution for the purposes of CRD IV and is therefore within the scope of CBCR. The activities of the Group are disclosed on pages 3 to 21 of the Annual Report and Accounts.

For the purposes of CBCR, the appropriate disclosures required are summarised below:

	UK
Number of employees (average full-time equivalent)	2,129
Turnover (£'000)	195,106
Loss before tax (£'000)	(17,198)
Income tax credit (£'000)	445
Corporation Tax paid (£'000)	–

No public subsidies were received during the year.

32. Post balance sheet events

There have been no reportable post balance sheet events.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF METRO BANK PLC ON COUNTRY-BY-COUNTRY INFORMATION

We have audited the country-by-country information in note 31 to the financial statements of Metro Bank PLC for the year ended 31 December 2016 ("the schedule"). The schedule has been prepared by the Directors based on the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Directors' responsibility for the schedule

The Directors are responsible for the preparation of the schedule in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, for the appropriateness of the basis of preparation and the interpretation of the regulations as they affect the preparation of the schedule, and for such internal control as the Directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the Auditors' judgement, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the Auditors consider internal control relevant to the entity's preparation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the country-by-country information in the schedule as at 31 December 2016 is prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Basis of preparation and restriction on distribution

Without modifying our opinion, we draw attention to the fact that the Country-by-Country Reporting information in the schedule is prepared to assist the Directors to meet the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. As a result, the schedule may not be suitable for another purpose.

Our report is intended solely for the benefit of the Directors of Metro Bank PLC. We do not accept or assume any responsibility or liability to any other party save where terms are agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
2 March 2017

SHAREHOLDER INFORMATION

REGISTERED AND OTHER OFFICES

The Company's registered office and head office is:
One Southampton Row
London
WC1B 5HA
Telephone: 0345 08 08 500/0345 08 08 508
Website: www.metrobankonline.co.uk

Other subsidiaries of the Company are also registered at the same registered office and head office of the Company.

REGISTRARS

The Company has appointed Equiniti Limited to maintain its register of members. Shareholders should contact Equiniti using the details below in relation to all general enquiries concerning their shareholding:

Equiniti Limited*
Aspect House
Spencer Road
Lancing, West Sussex BN99 6DA
Telephone: 0371 384 2030**
International callers: +44 121 415 7047

* Equiniti Limited and Equiniti Financial Services Limited are part of the Equiniti group of companies. Company share registration, employee scheme and pension administration services are provided through Equiniti Limited, which is registered in England and Wales with No. 6226088. Investment and general insurance services are provided through Equiniti Financial Services Limited, which is registered in England and Wales with No. 6208699 and is authorised and regulated by the UK Financial Conduct Authority.

** Lines are open Monday–Friday from 8.30am to 5.30pm (UK time), excluding UK public holidays.

2017 FINANCIAL CALENDAR

Annual General Meeting – 25 April 2017
First quarter results – 26 April 2017
Half year results – 26 July 2017
Third quarter results – 25 October 2017

UNSOLICITED MAIL

The Company is required by law to make its share register available on request to unconnected organisations. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. If you wish to limit the amount of unsolicited mail received, please contact the Mailing Preference Service, an independent organisation whose services are free for consumers.

Further details can be obtained from:
Mailing Preference Service
MPS Freepost LON 20771
London
W1E 0ZT
Website: www.mpsonline.org.uk

ANNUAL GENERAL MEETING

The Company's next Annual General Meeting will take place on 25 April 2017 at the Bank's registered office address at One Southampton Row, London WC1B 5HA and the Chairmen of each of the Board's Committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting.

The Annual General Meeting gives shareholders an opportunity to hear about the general development of the business and to ask questions of the Chairman and the Chairmen of the various Committees.

SHAREHOLDER PROFILE BY SIZE OF HOLDING AS AT 31 DECEMBER 2016

Range	Total number of holdings	Percentage of holders	Total number of shares held at 31 December 2016	Percentage of total
1–1,000	127	28.04%	49,468	0.06%
1,001–5,000	73	16.11%	173,874	0.22%
5,001–10,000	55	12.14%	424,080	0.53%
10,001–50,000	105	23.18%	2,460,958	3.06%
50,001–100,000	29	6.40%	1,986,908	2.47%
100,001–500,000	38	8.39%	7,078,206	8.81%
500,001–1,000,000	10	2.21%	7,490,787	9.33%
1,000,001 and above	16	3.53%	60,675,553	75.52%
Totals	**453**	**100.00%**	**80,339,834**	**100.00%**

SHAREHOLDER PROFILE BY CATEGORY AS AT 31 DECEMBER 2016

Category	Number of holders	Percentage of holders within type	Shares held at 31 December 2016	Percentage of issued share capital
Private shareholders	145	32.01%	5,457,057	6.79%
Banks	1	0.22%	4,460	0.01%
Nominees and other institutional investors	307	67.77%	74,878,317	93.20%
Totals	453	100.00%	80,339,834	100.00%

It should be noted that many private investors hold their shares through nominee companies and therefore the percentage of shares held by private shareholders may be higher than that shown.

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