METRO BANK

ANNUAL REPORT AND ACCOUNTS 2017
METRO BANK PLC

# JOIN THE REVOLUTION

# METRO BANK
# THE REVOLUTION IN BRITISH BANKING


Luton

## Contents




Duffy
**Chief Canine Officer**
@SirDuffield

# OUR AMAZING GROWTH

## FIVE-YEAR TRACK RECORD

| | 2013 | 2014 | 2015 | 2016 | 2017 | YoY% increase |
|---|---|---|---|---|---|---|
| Assets | £1.9bn | £3.7bn | £6.1bn | £10.1bn | **£16.4bn** | +63% |
| Customer deposits | £1.3bn | £2.9bn | £5.1bn | £8.0bn | **£11.7bn** | +47% |
| Net average deposits per store per month | £3.4m | £4.9m | £5.3m | £5.7m | **£6.3m** | +11% |
| Net customer loans | £0.8bn | £1.6bn | £3.5bn | £5.9bn | **£9.6bn** | +64% |
| Underlying profit/(loss) before tax | £(55.4m) | £(48.9m) | £(46.6m) | £(11.7m) | **£20.8m** | n/a |
| Statutory profit/(loss) before tax | £(52.2m) | £(48.6m) | £(56.8m) | £(17.2m) | **£18.7m** | n/a |


# 2017 HIGHLIGHTS

Strategic report
Governance
Financial statements

## STRATEGIC

- Record increase in customer accounts from 915,000 to 1,217,000
- Net promoter score[1] of above 80% with brand recognition across London of 89%[2]
- Delivered our promise to provide £1 billion of net lending to small businesses during 2017
- Completion of a £278 million capital raise at market value

## OPERATIONAL

- Seven new store openings, bringing the revolution further north to Peterborough, west to Swindon and south-east to Canterbury
- Creation of nearly 600 new roles bringing our total number of colleagues to over 3,000
- 27,000 schoolchildren trained through Money Zone during the year, bringing the total since 2010 to over 100,000
- Winner of Moneywise ‘Most Trusted Financial Provider’ for second year in a row

## FINANCIAL

- First annual underlying profit before tax of £20.8 million, compared to a loss of £11.7 million in 2016[3]
- Statutory profit before tax of £18.7 million, compared to a loss of £17.2 million in 2016
- Income grew by 51% over the year, compared to only 29% growth in operating expenses
- Loan to deposit ratio increased from 74% to 82%
- Record net average deposit per store per month growth of £6.3 million

1 Further details on how net promoter score (‘NPS’) is calculated are available on page 136.
2 All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1004 adults. Fieldwork was undertaken between 8th – 12th February 2018. The figures have been weighted and are representative of all London adults (aged 18+).
3 Underlying profit/(loss) before tax excludes Listing Share Awards, costs associated with listing, impairment of property, plant and equipment and intangible assets and costs relating to RBS alternative remedies package application. Further details are available on page 135.

# THE REVOLUTION GROWS

Metro Bank, the revolution in banking, celebrates another year of success.

Vernon W. Hill, II – Founder and Chairman

**Dear shareholders, customers, colleagues and friends – our FANS,**
Metro Bank is a power retailer created to redefine retail and business banking in Britain by delivering a unique customer experience with unmatched customer service and convenience.

The new retail paradigm is the experience, with customers demanding unique and integrated service delivered through every channel.

Our model is built on:

- A differentiated, value-added MODEL A persuasive and reinforcing CULTURE
- FANATICAL EXECUTION which eliminates stupid bank rules, AMAZES our customers and EXCEEDS their expectations

Metro Bank is uniquely positioned to exceed customer demands through:

- 55 iconic retail stores
- Our advanced information technology
- Our award-winning digital bank offering

## “The best is yet to come”

**2010**
July
Launch our first store in Holborn in London.


**2011**
Fourth quarter
Open our tenth store.

**2012**
Fourth quarter
Our deposit balances grow to £500 million and the number of customer accounts grows to 100,000.

**2013**
Third quarter
Our deposit balances grow to £1 billion, our lending balances grow to £500 million. Number of stores grows to 20.

November
We are named 'Bank of the Year' at the City AM Awards in London.

CITY A.M.

With all of the channels united to create FANS, not customers.

Our model is focused on creating FANS who:

- Join our brand
- Remain loyal
- Bring their friends

Business banking in Britain is equally underserved. As the 'Entrepreneurs' Bank', Metro offers a full range of personalised credit and cash management services. Our bankers know you and you know them. Already business banking is over 50% of Metro Bank.

2017 was another record year:

- Assets grew 63% to £16.4 billion
- Deposits grew 47% to £11.7 billion
- Loans grew 64% to £9.6 billion

Despite this continued success, at year end, Metro Bank had less than 1% of the UK deposit market.

At the end of 2017, over 1.2 million British business and retail customers had become Metro Bank FANS.

Investors continue to embrace Metro Bank.

- From our public listing in March 2016 to 28 February 2018, MTRO is up 98% to £35.84
- For 2017, share price ended at £35.84 up 22.5%
- Our annual shareholder return is 45%
- With year- end market capitalisation of £3.2 billion, Metro Bank is the most highly valued British bank other than the four legacy banks

Our future is unlimited, providing we continue to create and support our FANS.

Many thanks to our customers, FANS, colleagues, directors and investors.

THE BEST IS YET TO COME.

**Vernon W. Hill, II**
**Founder and Chairman**
1 March 2018

**2014**

Third quarter
The number of customer accounts grows to 400,000. The number of stores grows to 30.

**2015**

Third quarter
Our deposit balances grow to £4 billion, and we are named top Gold winner in Fairer Finance's league table of bank accounts.

Fourth quarter
We are awarded a Microsoft 'Visionary' award for innovative use of technology.

Fourth quarter
Our deposit balances grow to £5 billion; our lending balances grow to £3.5 billion; and the number of stores grows to 40.

**2016**

March
Listing on London Stock Exchange.

June
Our CEO Craig Donaldson ranked number one in Glassdoor's Highest Rated CEOs 2016.

June:
We are voted 'Moneywise most trusted financial provider'.

November
Launch of our game-changing commercial banking platform.

**2017**

May
We open our one millionth customer account on early May bank holiday while other banks are shut.

June
We are voted "Moneywise most trusted financial provider" for second consecutive year.

July
£278 million capital raise, oversubscribed and at full market price.

Fourth quarter
Our deposit balance grows to £11 billion. We open our 55th store in Swindon.

Over 100,000 children have now completed Money Zone, our financial education programme.

December
Voted Glassdoor top 50 employer.

# OUR UNIQUE MODEL: IT'S ALL ABOUT CREATING FANS

## Store expansion

- Thinking like retailers while being the most professional banker
- Stores open 'early until late', 362 days a year
- 24/7 telephony, 365 days a year
- With instant fulfilment – 'walk out working' with debit and credit cards

See more on page 20

## Integrated technology

- With real-time processing enabling real-time fulfilment
- Making customers' lives easier
- Offering customers their channel of choice
- Mobile app, internet, telephony and store

See more on page 22

## Unique culture

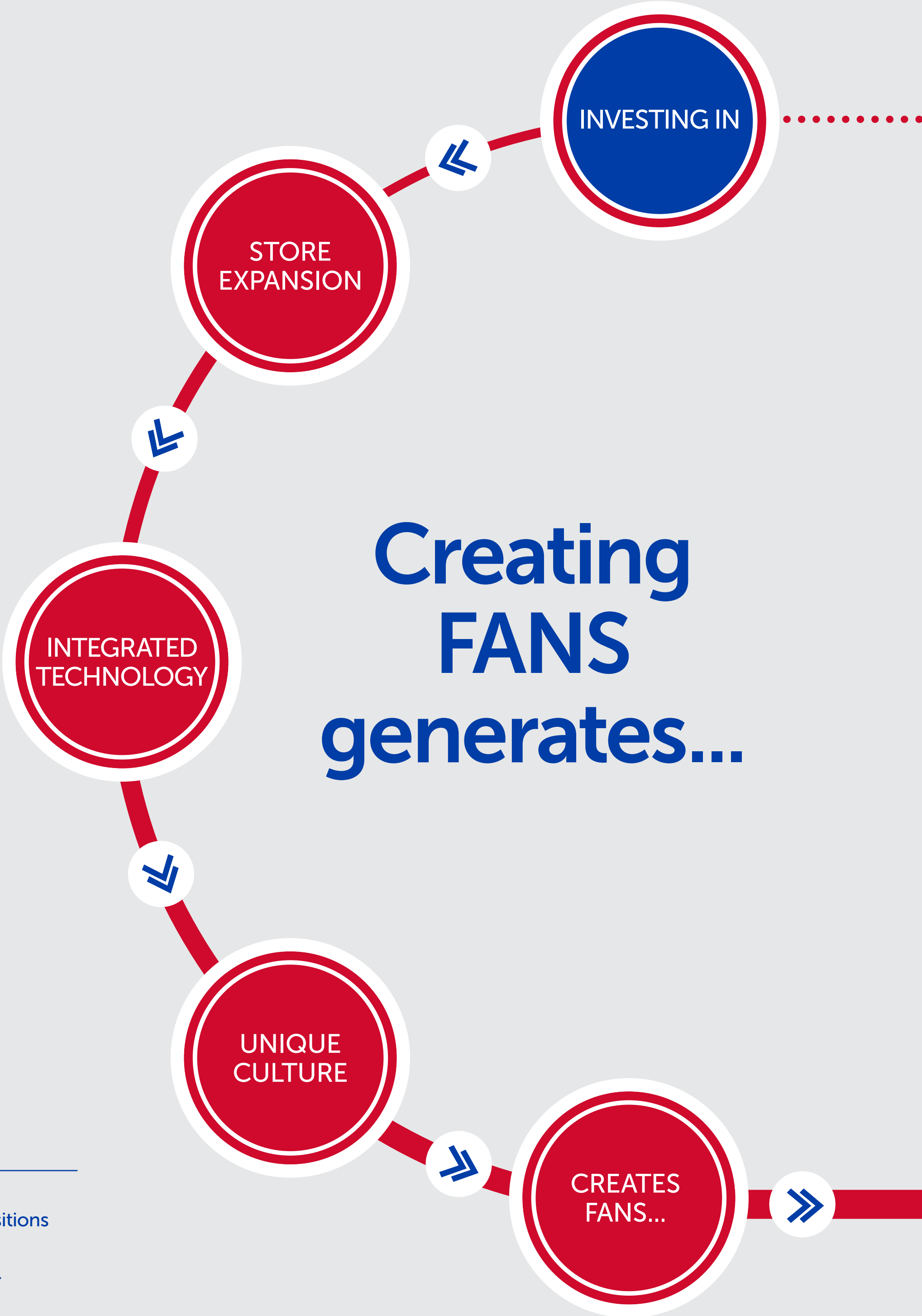
- AMAZEING behaviours
- Where we 'hire for attitude, train for skill'
- With colleague empowerment – 'no stupid rules'
- Where everyone's an owner
- And part of the community we serve

See more on page 24

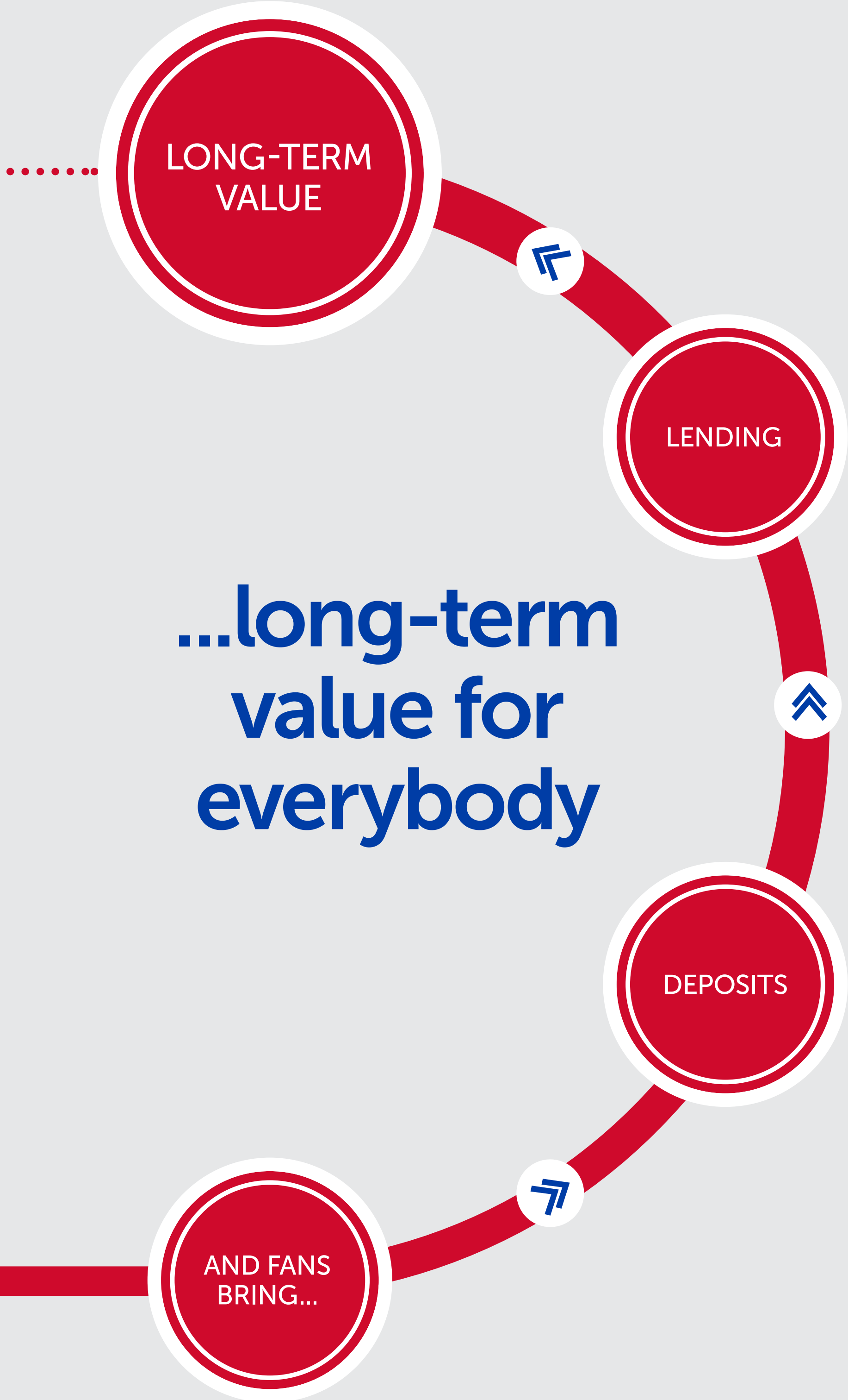
## Creates FANS

Surprising and delighting every customer:

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



# ...long-term value for everybody




## Long-term value

- By building a trusted franchise and brand by doing the right thing for all stakeholders
- Diversified across retail, commercial and private banking
- Providing reliable income growth at low risk
- With a cost base focused on creating and supporting FANS

See more on page 26

## Lending

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

See more on page 08

## Deposits

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

See more on page 08

## 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

# PUTTING OUR CUSTOMERS FIRST

Our objective is to keep surprising and delighting our FANS and profitably growing our business. We do this by investing in our colleagues, technology and stores.

**Strategic focus** | **Progress**

## Integrated model

We create FANS by 'surprising and delighting' customers across every channel – through integrating physical and digital channels through our technology and amazing colleagues.

See more on page 06

London Evening Standard Business Awards 2017
Financial Services Company of the Year

**Progress**

We opened seven new stores in 2017, expanding our network to new areas including Canterbury and Peterborough.

We've continued to launch revolutionary improvements in our digital and technological capability which included building our application programming interface ('API') layer and the development of our Current Account Online system which went live in January 2018.

We appointed our first Chief Information Officer, Martyn Atkinson, to the Executive Committee in August to ensure that technology remains a fundamental component of our model.

## Unique culture

We recruit, train and lead our colleagues to deliver our unique value-added model and create FANS in each of our communities.

See more on page 24

UK Social Mobility Awards 2017
Progression Programme of the Year

**Progress**

Culture is at the heart of our business and starts the moment anyone joins us. All colleagues attend visions cultural training on their first two days at Metro Bank, followed by up to a further six weeks of training for customer service roles, and then, of course, regular training after that.

We opened our seventh in-house training centre, Metro Bank University, at Ilford during the year. Every single colleague received training during the year and we're the only bank that offers all our store and contact centre advisors the chance to gain a professional qualification with the Chartered Banker Institute.

We're always proud to become a part of each community that we serve. We host regular networking and community events, including educating schoolchildren through Money Zone and supporting local charities.

## Diversified, sticky, low-cost deposits

We attract deposits through our integrated model and unique culture which creates FANS.

Moneywise Customer Service Awards 2017
Most Trusted Savings & Cash ISA Provider

**Progress**

Customer deposits grew by 47% to £11.7 billion at 31 December 2017 (2016: £8.0 billion), while deposit growth per store per month was a record £6.3 million for the year.

We continued to see record growth in customer account numbers, surpassing one million for the first time. At 31 December 2017 we had 1,217,000 customer accounts.

This increase in accounts and deposits has been achieved at a record low cost, with cost of deposits for the year of 54bp (2016: 79bp)

Non-interest bearing liabilities, in the form of current accounts, have grown 61% during the year and represent 32% of deposits.

## Low-risk, diversified lending

We offer simple lending products that meet the personal and business needs of our customers. Our customer-centric underwriting process aims to ensure a low-risk loan book, which is the foundation of long-term growth.

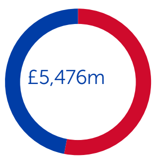
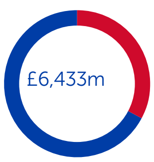
Corporate Livewire Finance Awards 2017
Business Lender of the Year

**Progress**

Total loans grew 63% to £9.6 billion at 31 December 2017 (2016: £5.9 billion). Loans to commercial customers represent 33% of total lending as of 31 December 2017 with a stable average debt to value ratio of below 60% during the year. Our mortgage book grew substantially to £6,231 million, driven primarily through organic lending supplemented by the purchase of a portfolio of UK mortgages for c£600 million. We of course delivered our promise to provide £1 billion of net lending to small businesses during the year.

Cost of risk remains stable at 0.11% (2016: 0.10%) due to high quality, low risk lending. Our debt to value ('DTV') on residential mortgages is only 60% (2016: 58%) and on commercial term loans is 58% (2016: 57%).

See more on page 32

| KPIs | | | Outlook for 2018 | Key risks we manage |
|---|---|---|---|---|
| NUMBER OF STORES<br>55<br>(2016: 48)<br><br>ACCOUNTS OPENED<br>302,000<br>(2016: 260,000) | ANDROID AND APPLE PAY TRANSACTIONS<br>1.8m<br>(2016: 760,000)<br><br>WHOLE BANK NET PROMOTER SCORE<br>>80% | MOBILE BANKING LOG-INS<br>33m<br>(2016: 769,000)<br><br>RETAIL ACCOUNT OPENINGS NET PROMOTER SCORE<br>91%<br>(2016: 78%) | • Open 12 new stores including growing the network into the South-west, Wales and the Midlands.<br>• Expand our network via our Current Account Online product, enabling us to create FANS of those who can't reach a store as well as driving greater national brand awareness. | 1 |
| COLLEAGUES PROMOTED IN THE YEAR<br>640<br>(2016: 500)<br><br>CHILDREN EDUCATED THROUGH MONEY-ZONE<br>27,000<br>(2016: 24,000) | VOICE OF COLLEAGUE RESULTS<br>96%<br>of colleagues think Metro Bank is a great place to work<br><br>JOBS CREATED<br>596<br>(2016: 489) | COLLEAGUE HOURS OF TRAINING<br>>181,000<br>face-to-face<br>(2016: 134,000)<br><br>>55,000<br>computer based<br>(2016: 47,000) | • Build on our AMAZEING culture through colleague training, AMAZEING reviews and opportunities for promotion.<br>• Expand our apprenticeship programme, generating long-term careers with plenty of progression potential.<br>• Create 900 new jobs as we continue our growth.<br>• Enhance relationships within our new and existing communities. | 5<br>7 |
| RETAIL/COMMERCIAL AT 31 DEC 17 (DEPOSITS)<br><br>Commercial 53%<br>Retail 43% | DEPOSITS<br>£11.7bn<br>up 47% from 2016<br><br>COST OF DEPOSITS<br>0.54%<br>(2016: 0.79%) | DEPOSIT GROWTH PER STORE PER MONTH<br>£6.3m<br>(2016: £5.7m)<br><br>NUMBER OF ACCOUNTS<br>1,217,000<br>(2016: 915,000) | • Continue to attract sticky deposits while maintaining a low cost of deposits.<br>• Promote organic growth by attracting FANS and deposits through new and existing stores and through Current Account Online. | 4<br>6<br>8 |
| RETAIL/COMMERCIAL AT 31 DEC 17 (GROSS LENDING)<br><br>Commercial 33%<br>Retail 67% | LENDING<br>£9.6bn<br>up 64% from 2016<br><br>COST OF RISK<br>0.11%<br>(2016: 0.10%)<br><br>CUSTOMER NET INTEREST MARGIN<br>2.19%<br>(2016: 2.13%) | LOAN TO DEPOSIT RATIO<br>82%<br>(2016: 74%)<br><br>AVERAGE DEBT TO VALUE (RESIDENTIAL MORTGAGES)<br>60%<br>(2016: 58%) | • Maintain growth trajectory in our loan to deposit ratio, while maintaining a cost of risk in line with target of c.0.2%.<br>• Continue to support lending to new and existing business and commercial customers.<br>• Renew our pledge to lend another £1 billion to Britain's SMEs. | 2<br>3 |

# A HIGH-GROWTH RETAILER

We've built a different kind of bank – one with stores that are open seven days a week, and where customers can walk in without an appointment and walk out with everything working straight away; so no waiting around for the postman.

We believe in offering simple, trusted products which are easily understood by our customers. They know that if it matters to them, it matters to us. From their money and their data, to the personal possessions in their safe deposit box, customers can count on us to keep their property safe.

Every day, we support people and power businesses across the country. We do this by offering unparalleled levels of customer service both through market-leading digital channels and our colleagues in our expanding high street presence.

## WHERE WE CREATE FANS...

| FANS | Services we offer |
| --- | --- |
| **Retail**<br>We were founded on the principle that customers should be able to bank when and where it suits them. That's why our stores are open seven days a week, from early until late. Customers can manage their money online or on the move with our award-winning mobile app. | • Simple savings and current accounts<br>• Easily accessible safe deposit boxes<br>• Debit and credit cards printed in store<br>• Mortgages<br>• Free coin counting for customers and non-customers alike |
| **Business**<br>We're the entrepreneurs' 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, providing straightforward and flexible finance to support businesses growing. | • Current accounts, deposit and lending products with no jargon<br>• Invoice and asset financing to help customers grow their businesses and manage cash flows<br>• Based within the communities we serve, with dedicated local business managers |
| **Private**<br>Simple is often best. The same can be said of our private products and services. We've designed them to get the job done quickly, easily and without fuss. No wealth management, no insurance – just banking. Our Relationship Managers are on hand to set up our customers' banking just the way they like it. | • Specialist teams including sports & entertainment, professionals, senior executives and commercial private clients who understand our customers' banking needs<br>• Personal service |
| **Commercial**<br>We believe in a different type of commercial banking – the type that provides customers with their own Relationship Manager. This is somebody who knows and understands the business – an individual who will specialise in your sector and your needs. | • Commercial loans and cash management<br>• Instant, fixed term and tracker deposit accounts<br>• Specialist sector teams including healthcare, hospitality and leisure, property and charity and not-for-profit |

# IT'S THE EXPERIENCE...

## ONLINE

Our simple and secure online banking allows customers to manage cards and savings, browse transactions, open new accounts – all from the comfort of the sofa. Customers can even open current accounts online, irrespective of where in the UK they live. If they live near a store, they can also opt to pop in and have their card printed on the spot. Just one of many examples of how we are seamlessly integrating bricks and clicks.

**78%** of customers registered for online banking

## ON THE APP

Our award-winning mobile banking app launched in December 2016. This year has seen a raft of new features added, including a spending summary tool, fingerprint login capabilities and standing order set-up. The app has already won several awards, including Best Mobile Banking app (Moneywise Customer Service Awards 2017).

**22** log-ins to our app per user per month


## IN STORE

Our stores are open early until late, seven days a week, 362 days a year with friendly colleagues ready to help. Every store has a Magic Money Machine to count coins.

**55** stores and counting

## OVER THE PHONE

Our call centres are London-based and our colleagues are available day or night. We don't believe in annoying automated telephone menus to navigate, so we put customers through to a human.

Over **1.5m** calls to AMAZE direct in 2017

# A YEAR OF GROWTH AND FANATICAL EXECUTION

## 2017 was another unbelievable year of growth for Metro Bank.

Craig Donaldson – Chief Executive Officer

**"We've celebrated our millionth customer account, been voted Most Trusted Financial Provider for the second year running, and delivered our first annual profit"**

Moneywise 2017
Most Trusted Financial Provider

We have had a great year:

- Growing to over 1.2 million customer accounts
- Growing to over £11.6 billion of deposits
- Lending over £9.6 billion to personal and business customers, with over £1 billion in the fourth quarter alone
- Creating nearly 600 jobs taking the total number of colleagues to over 3,000
- Expanding our award winning store network to 55 stores
- Launching our award winning new mobile offering
- Being voted Most Trusted Financial Provider for the second year running
- Achieving our first full year of profit

Our strategy remains the same: to be a high-growth retailer with a differentiated business model that integrates our innovative digital offering with fanatical physical delivery, delivered by colleagues who embody our AMAZEING culture.

And it's working. By surprising and delighting our customers and creating FANS, we earned a Net Promoter Score of over 80% in 2017. Our FANS are telling their friends and family about us, spreading the revolution through word of mouth, with our brand recognition rising to 89% London.

This means we are winning our personal and business customers through recommendation and as we surprise and delight them we create even more FANS who stay with us longer and recommend more of their friends, family and colleagues to join us – thank you.

# “We’re the entrepreneur’s bank and delivered on our commitment of over £1bn of new lending to business and commercial customers”

### Powering from strength to strength

Metro Bank has had a fantastic year, growing across every area of the business. Our geographical expansion, integrated with cutting-edge technology, is reinforcing our network and attracting retail and commercial customers. We’ve generated both record deposit and record lending growth, closing the year with our highest ever loan to deposit ratio of 82%. This has in turn increased revenue by 51% year-on-year and led to a £32.5 million uplift in profitability to £20.8 million from a £11.7 million loss in 2016.

### Record deposit growth

More FANS are trusting us with more of their money. Deposits surpassed £10 billion for the first time, increasing by £3.7 billion over the year to £11,669 million. Over 300,000 customer accounts were opened during the year and the average balance increased by 10% to £9,588.

| | 2017 | 2016 | Change |
|---|---|---|---|
| **Deposits** | **£11.7bn** | £8.0bn | 47% |
| Commercial | **53%** | 50% | |
| Retail | **47%** | 50% | |
| Average deposits per customer | **£9,588** | £8,689 | 10% |
| Net average deposits per store per month | **£6.3m** | £5.7m | 11% |
| % Current accounts | **32%** | 29% | n/a |
| Cost of deposits | **0.54%** | 0.79% | (25)bps |

Deposit growth has been fastest among business customers, particularly small and medium-sized enterprises which we believe are the most under served in the market. These commercial deposits grew 55% to represent 53% of our deposit base, bringing with it the associated transaction fees. In our current heartland of London and the South East we are winning 17% of SME business current account switchers and will continue to strengthen our presence in the sector, as well as entering new markets where we will bring further competition and choice.

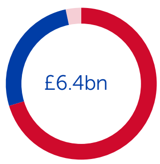
Our iconic stores generated deposit growth of £6.3 million per store per month over the year, up from £5.7 million in 2016. Every store across our network has grown its deposit base year-on-year, and we now have three stores which have generated more than £400 million of deposits. Comparative store deposit growth remains strong at 43% for stores open over 12 months; 39% for stores open over 24 months; and 35% for stores open over 36 months.

This was achieved while reducing our cost of deposits from 0.79% to 0.54%, the lowest ever level, bearing testament to our belief that customers will trade lower rates for a better service experience. We’ve seen 61% year-on-year growth in sticky current accounts, the engine of our organisation, which now total 32% of our deposit base and provide a clear funding advantage in a rising rate environment.

### Record lending growth

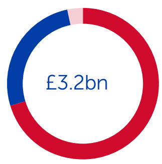
Both the momentum and quality of our lending have been strong. Building a bank for the long term requires fanatical focus on the right type of lending, without trading volume for quality. We achieved a 64% increase in lending year-on-year to £9,620 million across retail and commercial, while maintaining a low and stable 0.11% cost of risk and average debt to value ratios of c.60%.

RETAIL: 67%




| | |
|---|---|
| Residential mortgages | **£4.5bn** |
| Residential mortgages BTL | **£1.7bn** |
| Customer leading | **£0.2bn** |

COMMERCIAL: 33%




| | |
|---|---|
| Commercial loans | **£2.0bn** |
| Professional BTL | **£1.0bn** |
| Asset & invoice finance | **£0.2bn** |

I’m particularly proud of the way that we’ve continued to support the small and medium sized enterprises (‘SME’) sector. At the start of the year, we committed to providing £1 billion of net new lending to businesses during 2017 – a promise we not only delivered on but renewed for 2018.

### Long term capital planning

From a capital perspective our growth was supported by an equity raise of £278 million in July 2017. Shareholders responded overwhelmingly, with shares issued at the market price on the date of issue. We have submitted our application to the PRA to be eligible to apply advanced internal rating-based (‘AIRB’) capital requirements to our residential mortgage portfolio. A successful application will ensure appropriate capital efficiency to support our future lending.

## “Our 55 stores act as real hubs for the local community”

### Fanatical execution and a unique culture

At Metro Bank, the culture is owned by everybody and is what sets us apart from the rest. We're fanatical about creating the right culture for long-term success. A truly differentiated approach to banking starts with hiring for attitude and training for skill, investing in training and development where core values are reinforced, and rewarding colleagues based on their AMAZEING behaviours. By creating FANS of our colleagues, they make FANS of our customers – and this is what the banking revolution is all about.

We commit to the career of each of our colleagues – and during the year provided them with nearly 900 training courses through our in-house training facility, Metro Bank University. We're the only bank that offers all our store and contact centre advisers the chance to gain a professional qualification with the Chartered Banker Institute. We also operate an apprenticeship programme to support young people to start a career in banking. We also give all our apprentices a permanent job with us.

Protecting our culture as we grow is key. We like to promote from within, which means that we always look for internal candidates before searching externally. Each new store creates c.25 new jobs within the local community – and during 2017 we promoted over 600 colleagues. It's inspiring to see the 29 colleagues who began their journey at Metro Bank as cashiers or customer service representatives who have now been promoted to store manager or more senior positions.

Each of our colleagues is dedicated to supporting the communities that we serve. Our stores act as real hubs for the local community, with hundreds of networking and charity events hosted in them throughout the year, as well as our free financial education programme, Money Zone, which taught money basics to more than 27,000 students in 2017.


# “Customers want choice and instant fulfilment”

### Seamlessly integrating bricks and clicks

Customers tell us time after time that they want the option to choose how, when and where they engage with our services – whether in store, via the app, over the phone or online. Our cultural, customer-led approach applies across all channels.

This year, we continued to expand our network both inside and outside London. We are currently building our 56th store in Watford, and expect to expand our network by a total of 12 stores in 2018. We're excited to open new markets in Cardiff, Bristol, Birmingham and beyond in the coming months.

Award-winning, legacy-free IT platforms enable us to deliver a faster, more informed and more secure service to customers without friction across multiple channels and systems. Real-time data processing enables fulfilment at the point of sale for today's 'now' culture, and we continue to invest in our digital capability so we can adapt to changing consumer behaviours and preferences. Whether that's simple tweaks that make life that bit easier for our customers, like using contactless technology with our Magic Money Machines, or developing state-of-the-art Current Account Online opening using 'selfie' technology for identification and verification and allowing customers to choose to collect their card in store or be sent in the post.

Behind the scenes we're constantly looking to improve the safety and security of our customers. Aided by our top-of-the-range systems and ability to see a single view of all a customer's banking products, we're continually improving our fraud analytics, thereby helping to target fraudsters before they're able to act. Our bespoke telephony systems incorporate a range of market-leading fraud detection platforms. We take looking after customers' data just as seriously as looking after their deposits.

In further developments, we've successfully developed a bank-wide application programme interface ('API') layer to support client data requests and get ready for the opportunities the open banking revolution presents.

### Our 2017 awards

There's so much to be proud of at Metro Bank: the entrepreneurs we support to grow their businesses; the families we help to buy their homes; the jobs we create and the contribution we make to local communities. We've also been privileged to again receive a wide range of awards during the year, recognising our commitment to providing outstanding service in every channel. These awards underline the fact that great service is about meeting the needs of our customers, however they want to do business with us – on the go, in our stores or over the phone – and by providing products that can be trusted.

For the second year in a row, we were voted the Moneywise 'Most Trusted Financial Provider', a real validation of how we are viewed by the British public. We also won the Moneywise award for 'Best Mobile Banking app', demonstrating just how well we're able to integrate all facets of our business. We were named a Glassdoor Top 50 employer in the UK and, to top it off, we won 'Financial Services Company of the Year' at the London Evening Standard Business Awards 2017.

### Our 2017 awards

**Most Trusted Financial Provider**

Best Current Account Provider for Branch Service

Best Mobile Banking App

Most Trusted Savings and Cash ISA Provider

Financial Services Company of the Year

Progression Programme of the Year

Craig Donaldson - Most People Focused CEO of the Year

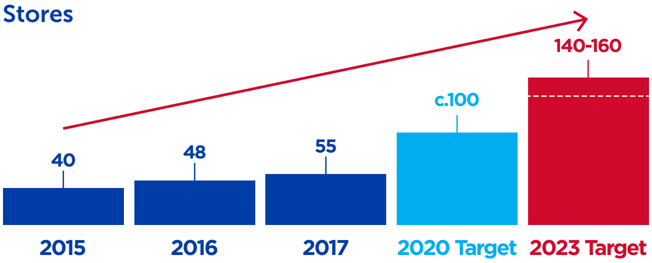
Best Customer Focus

Best Debit Card for use abroad

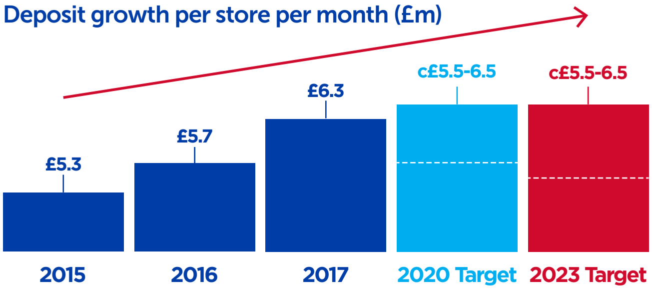
Best Business Account

# CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

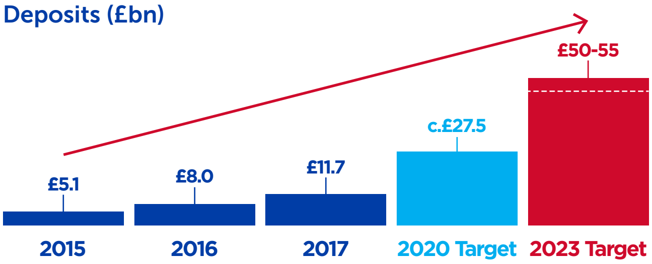
**Stores**



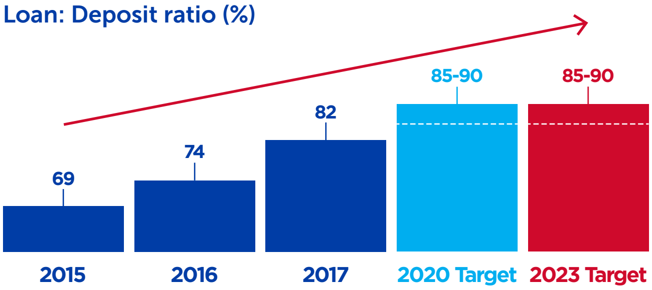

**Deposit growth per store per month (£m)**



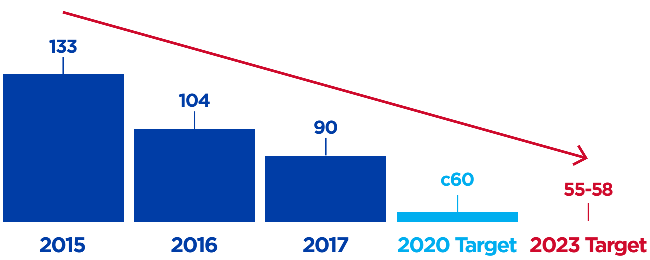

**Deposits (£bn)**




**Loan: Deposit ratio (%)**




**Underlying Cost: Income ratio (%)**




## Looking to 2020 and beyond

We delivered on our commitment to announce our first full year of profitability in 2017. As we approach 2020, we have refined our 2020 targets to reflect the progress we have made so far:

- Following sustained outperformance, we increased deposits per store per month from c.£5.25 million to £5.5-6.5 million. We adjusted the store outlook from c.110 to c.100 as we anticipate reaching the same total deposit with slightly fewer stores in 2020.
- To reflect the momentum of the lending and market opportunities we see, we increased our loan to deposit ratio from c.85% to 85-90%
- We are adjusting the 2020 NIM + fees guidance of c.3% to be customer deposit NIM + fees. When we announced the targets in early 2016, TFS did not exist and has had a distortive effect on NIM, so we believe this metric more accurately reflects the underlying business performance.

Our 2020 targets are:

| Target | 2020 |
|---|---|
| Stores | c.100 |
| Deposit growth per store per month | £5.5-6.5m |
| Loan to deposit ratio | 85-90% |
| Customer NIM + fees | c.3% |
| Underlying cost to income ratio | c.60% |
| Cost of Risk | c.0.20% |
| Leverage ratio | >4.0% |
| ROE | c.14% |

As we approach 2020, I wanted to share the longer-term vision, so we are also introducing guidance on the next staging post in our growth.

| Target | 2023 |
|---|---|
| Deposits | £50-55bn |
| Stores | 140-160 |
| Deposit growth per store per month | £5.5- 6.5m |
| Loan to deposit ratio | 85-90% |
| Customer NIM + fees | c.3% |
| Underlying cost to income ratio | 55-58% |
| Cost of Risk | 0.15-0.30% |
| Leverage ratio | >4.0% |
| ROE | 17-19% |

And that's still only the beginning of what we can achieve.

# “We are investing and improving every day. There is so much more to come”

### Changes to the Board

This year we welcomed Monique Melis to our Board as an independent Non-Executive Director. Monique brings a wealth of financial services and regulatory experience across established and growth markets.

We were also sad to announce the retirement of our Chief Financial Officer ('CFO'), Mike Brierley. I am really sorry to lose Mike from the Metro Bank family. He has been on the journey with us from the very start, and without his knowledge, hard work and business acumen, it would have been even harder and definitely a lot less fun building Metro Bank.

Mike retires at the end of March 2018 and will be replaced by David Arden who joins us from Sainsbury's Bank. The appointment of David marks a new chapter in the Metro Bank story. David's distinctive blend of retailing and banking experience made him the natural choice to be our CFO and I look forward to him joining the team and helping us take the Bank nationwide.

### In summary

It gives me immense pride to report our first annual profit, as we continue to grow towards our 2020 vision and to deliver value for all our FANS.

On behalf of the Board, I'd like to extend my sincere thanks to our shareholders and our tremendous colleagues – as well as to the British businesses and public who have so overwhelmingly embraced the revolution in banking.

**Craig Donaldson**
Chief Executive Officer
1 March 2018

# AN EXCITING FUTURE

Since 2010, we have established ourself as the dominant new entrant in the UK banking market for personal and business customers, bringing a genuine alternative to the established high street banks and delivering exceptional growth.

The UK banking market is ripe for disruption. We are proud to be the only new entrant to the high street, offering business and retail customers a real choice and shaking up the competition. A mere seven years since launch, through the aftermath of the financial crisis, we have opened over 1 million customer accounts, have over £16 billion of assets and have achieved our first full year of profitability. And we've only just begun.

Change in the UK banking industry is long overdue. Century-old banks are adapting to a changing consumer whose expectations of their banks are quite rightly increasing. In today's 'now' culture, customers crave choice and instant fulfilment – banking wherever, however and whenever they chose. A legacy-free bank like ours, with state-of-the-art real-time technology and prime retail stores open when our customers want, is perfectly positioned to take market share.

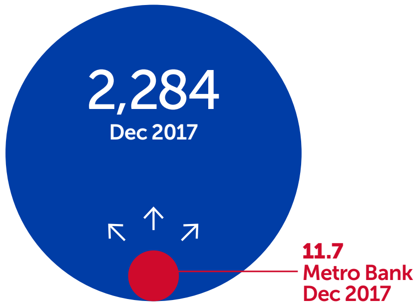
**The UK has a large, attractive banking market**

The UK has a large, well developed banking market that continues to grow, supported by the strength of the UK economy. Our goals are to reach £27.5 billion of deposits by 2020 and to continue to grow after that. £100 billion of deposits represents only 4% of the current market. In 2017, our total deposits and loans grew 47% and 64% respectively, standing at £11.7 billion and £9.6 billion in total. This creates the perfect platform for us to continue to grow from, winning customers who are dissatisfied with how their existing banks treat them.

In November, the Bank of England increased interest rates for the first time in over ten years, from 0.25% to 0.5%,

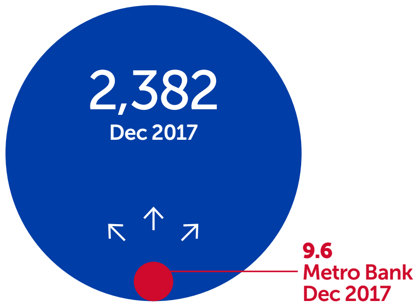
PLC Awards
New Company of the Year Award

## UK banking deposits
£bn



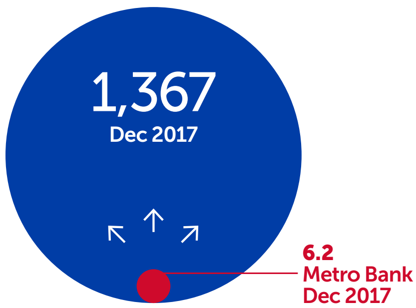

Source: Bank of England.

## UK lending
£bn




Source: Bank of England.

## UK mortgages
£bn

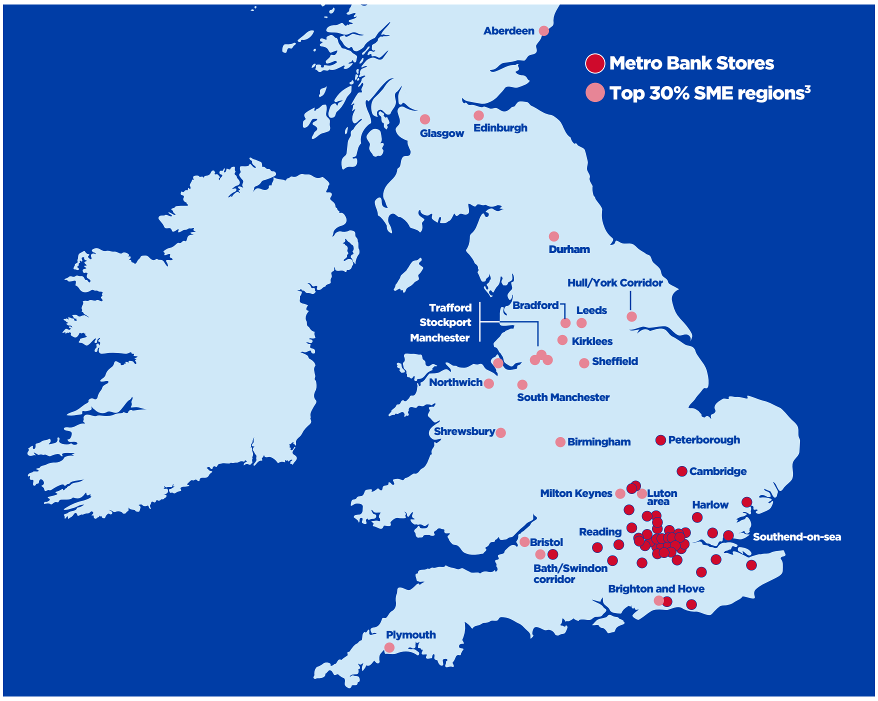



Source: Bank of England.

in order to address increasing inflation. This was accompanied by an indication of a further two rate rises before 2020. Our deposit led strategy produces high volumes of low-cost, sticky deposits; our service quality means customers choose to join and stay with us. Our strategy creates a naturally hedged balance sheet, and future rate rises represent an opportunity.

In it's June Financial Stability Report, the Bank of England highlighted concerns about the level of unsecured consumer lending, requiring banks to hold more than £10bn of additional capital to prepare for potential adverse changes. We had already begun reducing our exposure to consumer lending due to concerns about pricing compression relative to the risk involved. Only 2% of our lending is in unsecured consumer credit, and we have no customers with interest free periods on credit cards; the impact of any market-wide deterioration will be relatively low on our current balance sheet.

In addition to our current footprint, there is a big opportunity across the UK banking market. Our current store network only covers 26% of the SME market. Store numbers have now reached 55, with expansion as far west as Swindon and as far north as Peterborough. The chart below illustrates the potential for further growth nationally and the opportunities it presents.




### Customers want an integrated experience

Major high street banks continue to close branches. During 2017, the big five UK banks reported that they planned to close 482 branches[1]. While these banks don't value branches, customers do. A recent Accenture Survey[2] found that 20% of customers visited a bank branch weekly, and that millennials were the demographic most likely to visit a branch (23% did so weekly). This demonstrates the continued necessity of being able to provide face-to-face services and advice. Our investment in stores in prime retail locations where customers can "walk out working" or speak to their business manager without an appointment creates compelling service advantage over our competitors.

Digital banking is expanding rapidly. Online banking represents the most common way retail customers engage with their bank, while mobile banking is the most popular channel for younger customers. This demonstrates the need to invest in a multi-channel experience; customers should be able to access their banking services the way they want to, and benefit from a consistently positive experience across all channels. Our strategy has always reflected this growing trend, resulting in continuously market leading NPS scores from customers.

Business banking customers are also looking for leading service. While charging levels are an important factor for businesses, smaller SMEs also cite convenience (store location and hours) as a leading criteria for choosing a bank, while larger SMEs focussed on high quality personalised service and flexibility[4].

Our focus on service and convenient opening hours has resulted in a significant share of new business accounts being opened. In our current heartland of London and the South East we are winning 17% of SME business current account switchers[5].

### We are well positioned to benefit from regulatory changes

The pace of regulatory change continues to be high.

Our simple IT architecture means we are ready to adapt to emerging consumer behaviour, innovation and regulation. We prepared for the changes resulting from the Payment Services Directive 2 ('PSD2') which came into effect on 13th January 2018. This new legislation will help make online payments safer for customers, and give them more choice by bringing in new types of payment services, increasing competition between payment service providers and opening the door to new providers. Customers can now use authorised Third Party Providers ('TPPs') to receive their account information in one place. PSD2 opens the door for us to develop – or partner with others to provide – new services for our customers.

In November 2017, the Bank of England announced the end of the Term Funding Scheme ('TFS'), which had been put in place to encourage banks to lend to support UK economic growth. During 2017, the TFS had the effect of increasing competition for quality lending opportunities, resulting in margin compression as lenders had access to low cost funding. The withdrawal of the scheme means that this cheap funding is at an end and banks that do not have a strong deposit franchise may suffer margin compression or lower growth. Our deposit-led strategy and high quality service has created a sustainable competitive advantage that will fuel our sustainable growth.

1. Which (April 2017)
2. Accenture: 10 Mega Trends driving the future of payments (2017)
3. ONS 2016, Data set ID: UKBAF01, Enterprise by Turnover size band and GB Local Authority Districts (including UK total), Metro Internal Data.
4. YouGov SME banking Survey Q2 2017
5. Charterhouse Research Business Banking Survey, YE Q4 2017. Based on interviews with businesses that had switched main bank in the 12 months prior to interview. Base size: 402. Data weighted by region and turnover to be representative of businesses in Great Britain.


# BREAKING THE MOULD

## Creating FANS through our award-winning stores

**Making our bank work for you.**
From Brighton to Peterborough, Canterbury to Swindon, we're part of the communities we serve. 55 stores and counting! We're still expanding the network north and west as well as infilling.

How many banks can say that?

# Fanatical execution is at the heart of our experience

Great retailers create fun experiences for their customers, turning them into FANS. We're proud to be a part of the communities we serve, whether that's hosting networking and community events, educating local schoolchildren, supporting charities or offering family craft activities in the holidays. Just because we are in the banking business, doesn't mean the experience can't be fun.

**Store transactions** over 2.7m

over £46m **Coins counted by our Magic Money Machines**

**Accounts opened** over 300k

over 2,500 **Community events hosted in stores**

**Pens/ lollipops given away** over 3.5m

Visitors: dogs, rabbits, sheep, horses, parrots... we've seen it all. If it matters to you, it matters to us. No stupid bank rules!

## Hello Luton

DJ, stilt walkers and free goodies were just some of the things on offer at the Grand Opening when the revolution in British banking reached Luton on 27 October 2017.

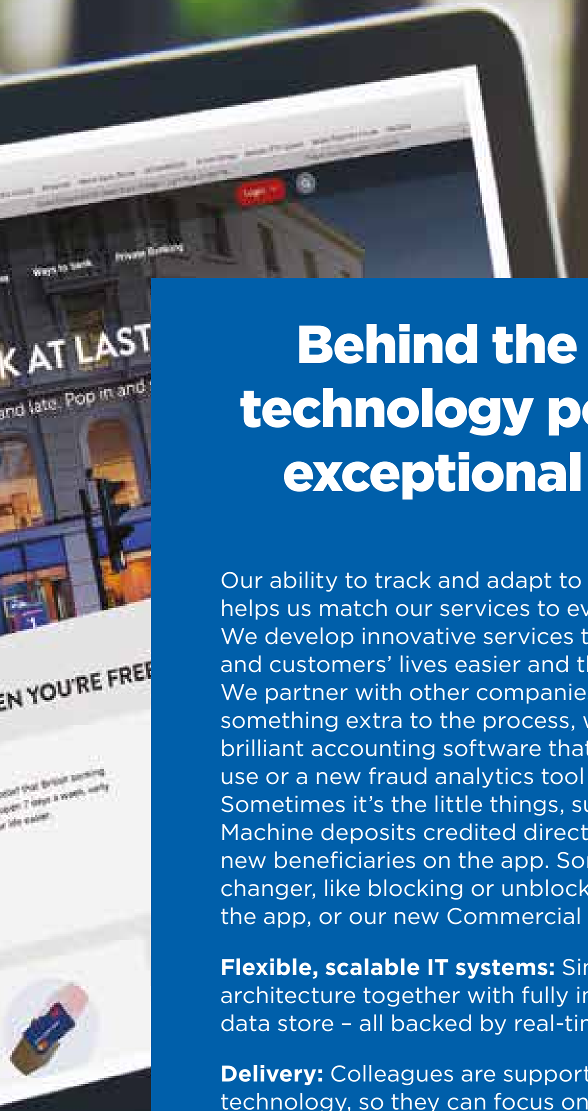
Customers want choice when it comes to how, when and where they do their banking, whether that's in store, online, by phone, through an app or... from the seat of their car! That's why Luton is our third store to offer a drive-thru, following success in Southall and Slough. As well as seven days a week banking, with 6,000 boxes, Luton offers more safe deposit boxes than any of our existing stores.


Hayley Harrison and the team have opened over 3,200 customer accounts across business and personal in just over two months. Luton had £62 million of deposits and £4 million of lending at 31 December 2017.


# INVESTING IN OUR TECHNOLOGY

## Creating FANS with our award-winning technology

**A bank built around you.**
Today, we live in a 'now' culture. Our real time technology gives our AMAZEING colleagues a service edge in store and over the phone, and puts customers in direct control of their banking online and on the move.



# Behind the scenes, technology powers our exceptional service.

Our ability to track and adapt to customer behaviours helps us match our services to evolving customer needs. We develop innovative services that make our colleagues' and customers' lives easier and their data more secure. We partner with other companies who we think can bring something extra to the process, whether that's some brilliant accounting software that our SME customers use or a new fraud analytics tool in the contact centre. Sometimes it's the little things, such as Magic Money Machine deposits credited directly to accounts or adding new beneficiaries on the app. Sometimes it's a game changer, like blocking or unblocking cards instantly from the app, or our new Commercial Online Banking platform.

**Flexible, scalable IT systems:** Simple technology architecture together with fully integrated operational data store – all backed by real-time processing.

**Delivery:** Colleagues are supported by best-in-class technology, so they can focus on best-in-class service.

**AMAZE direct calls** — over 1.5m

**mobile transactions** — over 4.3m

**online transactions** — over 7.0m

**calls answered on bank holidays** — over 20,000

**fintechs partnered with** — 14

## Open Banking? We're ready

How customers choose to bank, and what we mean by banking, is evolving. We're ready for that changing landscape. And we're excited by it.

We've invested in a market leading Application Programming Interface ('API') layer, designed to create an environment that supports innovation and added-value services for our customers. Our API layer gives us permission to play in a new era of banking where sharing of data and third-party relationships will become the norm.

Metro Bank is ready to harness this interconnected world and is actively seeking innovative partnerships and opportunities to invest. We see potential to surprise and delight even more FANS across a number of themes: from enhancing our customer services and benefits to streamlining internal processes through partnerships with third parties and FinTech companies.

Our modern technology platform, agile ways of working, and over one million customer accounts gives us a great platform to develop next generation banking products and services. We will continue to invest in the platform in 2018 and beyond.

# GROWING OUR TALENT

## Creating FANS with our AMAZEING colleagues

**Our people are what makes us different**

We believe successful businesses attract and grow talented people. During 2017 we devoted over 181,000 hours to nurturing and developing our biggest asset, our colleagues. Through our in-house training, mentoring, professional qualifications and investing in our new leaders, meaning our colleagues know we are committed to supporting them in their career. Which is why 96% of our colleagues know Metro Bank is a good place to work.

# Our colleagues create FANS

Metro Bank's secret ingredient is its unique culture, which is why we hire for attitude and train for skill. Our colleagues all take customer service to the next level and are focused on creating FANS; you can see the star quality in every one of them.

**AMAZEING behaviours**

Individual behaviours are measured against our culture, not sales targets, it's how things get done that's important

**Great place to work** — 96%

We're the only bank in Glassdoor Employees' Choice Awards Top 50, and 96% of colleagues think that Metro Bank is a good place to work

**New roles created** — nearly 600

We have created nearly 600 new roles, promoted more than 640 colleagues

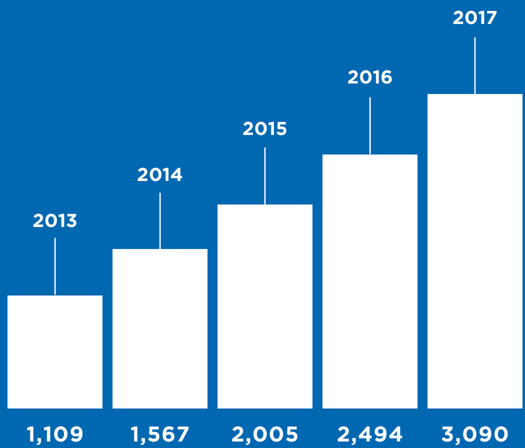
**New professional bankers** — 350

Through our Metro Bank University we have run 876 in-house training courses, and enabled 350 colleagues to achieve professional banking qualifications

## Building careers

Azim Mahmud's Metro Bank story epitomises what is possible with the right attitude and a passion for the customer. In 2014, he applied for an apprentice cashier role at Metro Bank and has never looked back. In his words, "My first year at Metro Bank was the most vital learning curve as this really gave me an idea of what I could achieve if I was willing to put the work in."


Fast forward 18 months and Azim was given the opportunity to move into a Customer Service Representative role. And in June this year he started the next chapter in his Metro Bank journey, and was promoted to Assistant Store Manager at our Romford store. And if that wasn't enough for 2017, as a graduate of the Bank's Learning to Lead programme, he collected the Progression Programme of the Year award at the Social Mobility Awards 2017.




**Number of colleagues**

# ACHIEVING OUR FIRST ANNUAL PROFIT

Mike Brierley – Chief Financial Officer

**"We've delivered our first annual profit in line with the original plan, whilst at the same time maintaining record investment in our stores, our technology and our people"**

## Overview

This has been an exceptional year, with the Group delivering continued growth in every area of the business. In my final full year as CFO we've grown our network to 55 stores, and expanded the revolution to new areas including Peterborough, Swindon and Canterbury.

The integration of our leading technology and the further expansion of our store footprint, is helping us realise the beneficial effect of our network and drive customer acquisition. This, in turn, has increased deposit growth, with deposits ending the year at £11,669 million (2016: £7,951 million) and allowed us to increase our lending to £9,620 million (2016: £5,865 million). Our record growth, supplemented by a c.£600 million mortgage portfolio acquisition in June, is primarily well collateralised and low risk.

The result is our first annual profit, in line with our original business plan. Statutory profit before tax for the year was £18.7 million, compared to a loss of £17.2 million in 2016. Underlying profit before tax, a measure which excludes the effect of certain one-off items which are not considered to reflect trends in the underlying business, was £20.8 million for 2017 compared to a loss of £11.7 million in 2016.

## Deposits

| | 2017 £m | 2016 £m | Change % |
|---|---|---|---|
| Customer deposits | 11,668.7 | 7,950.6 | 47% |
| Customer accounts | 1,217,000 | 915,000 | 33% |
| % current accounts | 31.6% | 28.7% | |
| Average deposits per customer | £9,588 | £8,689 | 10% |

Deposits from customers increased by 47% over the year to £11,669 million (2016: £7,951 million), having surpassed £10 billion in the third quarter.

Growth has been driven by a combination of increased deposits from existing customers as well as through customer acquisition, including through new store openings and geographical expansion. The Group ended the year with 1,217,000 customer accounts (2016: 915,000), having welcomed our millionth customer account on the early May bank holiday, a day traditionally other banks are closed.

We have continued to strengthen our diverse, low-cost sticky deposit base. Corporate customers make up 53% of total deposits.

Cost of deposits fell to a record low of 54bp for the full year (2016: 79bp). Non-interest bearing liabilities, in the form of current accounts, have been the highest growing, up 61% year-on-year, and account for 32% deposits. As a conservative bank, we are naturally hedged and run little interest rate risk so these deposits should provide a funding advantage in a rising rate environment.

London Stock Exchange's '1000 Companies to Inspire Britain' 2017

We've drawn down a total of £3,321 million from the Bank of England's Term Funding Scheme ('TFS'), but remain focused on being a deposit-funded bank. This scheme is due to close in February 2018 and be fully wound down by 2022.

### Assets

| | 2017 £m | 2016 £m | Change % |
|---|---|---|---|
| Loans and advances to customers | 9,620.3 | 5,865.4 | 64% |
| Total assets | 16,355.4 | 10,057.3 | 63% |
| Commercial lending as proportion of total | 33% | 36% | – |
| Loan to deposit ratio | 82% | 74% | – |

Total loans and advances to customers increased by 64% to £9,620 million at 31 December 2017 (2016: £5,865 million). This was driven by continued growth within commercial lending, the impact of new stores and the continued expansion of our residential mortgage offering. In addition to record organic lending growth, on 2 June 2017 we completed the purchase of a portfolio of UK mortgages for c.£600 million. As a result, the loan to deposit ratio has risen to 82% at 31 December 2017 (31 December 2016: 74%).

Despite record lending growth, the cost of risk remains low at 11bp. Overall, the credit quality of the book remains robust, with 91% (2016: 88%) of lending secured by collateral. Consumer lending continues to remain a small part of our business, at 2% of gross lending, as we focus on well collateralised low-risk commercial and residential lending.

### Income

| | 2017 £m | 2016 £m | Change % |
|---|---|---|---|
| Net interest income | 241.0 | 154.2 | 56% |
| Other income | 52.8 | 40.9 | 29% |
| **Total income** | 293.8 | 195.1 | 51% |
| Net interest margin | 1.93% | 1.97% | (4)bps |
| Customer net interest margin | 2.19% | 2.13% | +6bps |

Further details on net interest income and other income are included on page 96.

Total income increased by £98.7 million to a record £293.8 million (2016: £195.1 million), reflecting strong growth across all of our lending books, increased fee income and a record low cost of deposits.

Customer net interest margin rose by 6bps due to an increase in the loan to deposit ratio, as well as non-interest bearing accounts becoming a greater component of deposits. During the year, we started reporting customer net interest margin for the first time. This strips out the effect of the Bank of England Term Funding and Funding for Lending schemes. Although accretive to income, participation in these schemes has a dilutive effect on the margin. Customer net interest margin is therefore more representative of our underlying performance and also provides an indication of future performance once these schemes are wound down. A reconciliation of customer net interest margin can be found on page 134.

Metro Bank's other income consists primarily of fees and commissions totalling £29.7 million (2016: £22.2 million), earned through our range of commercial and retail services. Of this, £9.1 million was attributable to the rental of safe deposit boxes, an increase of 30% compared to 2016 (£13.3 million).

### Operating expenses

| | 2017 £m | 2016 £m | Change % |
|---|---|---|---|
| Operating expenses | 266.9 | 207.6 | 29% |
| Cost:income ratio | 91% | 106% | – |

Further details on operating costs are included in note 5 to the financial statements.

Total operating costs increased by 29% to £266.9 million (2016: £207.6 million), as we continued to invest in our colleagues and stores.

The cost:income ratio improved to 91% (2016: 106%), reflecting our transition into profitability. This improvement has come through growth rather than cost-cutting. It demonstrates our philosophy that sustainable profit growth is the result of great customer service and fanatical execution, driven through continued investment in colleagues and both physical and digital infrastructure.

Annual operating costs per £1 million of deposits is down from £25,000 in 2016 to £23,000 in 2017, an improvement of 11% and a reflection of our strengthening economies of scale.

People costs continue to be the largest component of operating expenses and have risen 31% year-on-year due to new store growth and the further expansion of our specialist support functions. Occupancy costs increased 19% to £30.9 million, as a result of the store openings, as well as taking possession of new office space and stores currently under development. The growth in occupancy expenses has been partially limited by the acquisition of the freeholds of some of our stores. These are purchased when the opportunity arises and where there's a strong commercial basis for doing so.

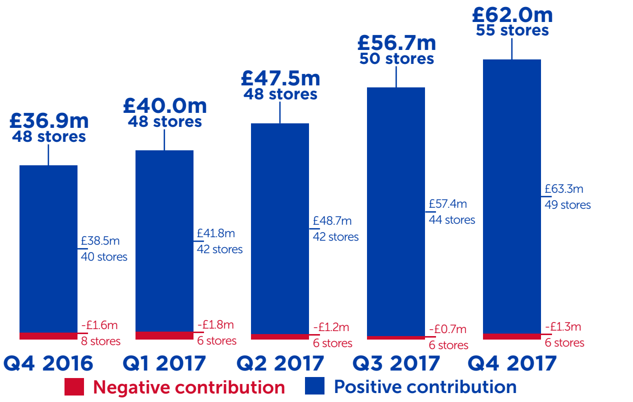
# FINANCIAL REVIEW CONTINUED

Depreciation and amortisation increased by 49% year-on-year reflecting the increased investment in stores and technology.

### Taxation

The income tax charge for the year was £7.9 million (2016: £0.4 million tax credit), with an effective tax rate of 42.2% (2016: 2.6%). The effective tax rate is higher than the statutory income tax rate (19.25%) primarily due to legislation enacted in 2017 and effective from 1 April 2017 which restricts the amount of profit that may be offset by brought-forward losses to 50%. This delays our loss utilisation profile to years in which lower tax rates will apply and the value of the deferred tax asset has been reassessed accordingly. The deferred tax asset decreased from £56.3 million at 31 December 2016 to £53.7 million at 31 December 2017 primarily due to the utilisation of brought-forward tax losses against taxable profits during the year. Without the effect of changes in tax rates our effective tax rate for the year would be 26.3% (2016: 1.0%).

### Store contribution increases for new and existing stores




### Stores

We increased the proportion of freehold ownership of stores to 20% during the year (31 December 2016: 13%), as we took ownership of three of newly opened stores as well as two stores previously leased. The purchase of these five stores during the year will result in annualised rental savings of over £1.3 million.

As well as having a strong financial rationale, the expansion of freehold purchases underlines our commitment to remaining in the communities we serve. This is in stark contrast to the big five banks which have shrunk their networks over the past year as they continue to retreat from the high street.

The continued expansion during 2017 has once again led to an increased contribution from both new and existing stores. At the end of 2017, 49 of our 55 stores were making positive contributions, including all stores that have been open more than 18 months.

Safe deposit boxes, an area we believe to have been previously under served by the market, remain a key part of our business model. Income from safe deposit boxes covers 80% of net rent on our stores.

### Capital structure

| | 2017 £m | 2016 £m | Change % |
|---|---|---|---|
| Common Equity Tier 1 ('CET1') Capital | 896.9 | 651.4 | 37.7% |
| Risk weighted assets ('RWAs') | 5,881.8 | 3,590.4 | 56.7% |
| CET1 ratio | 15.3% | 18.1% | 230bps |
| Regulatory leverage ratio | 5.5% | 6.5% | (110)bps |
| Leverage | 6.7% | 8.0% | (130)bps |

## Case study – Ealing

Our Ealing store opened on 7 June 2013 and within 14 months was making a positive contribution. In its fourth year (to 6 June 2017), deposits grew by £5.3 million/month. At the same time, now the store is fully established direct costs remain largely static – ensuring an increasing contribution to the Group's profitability.

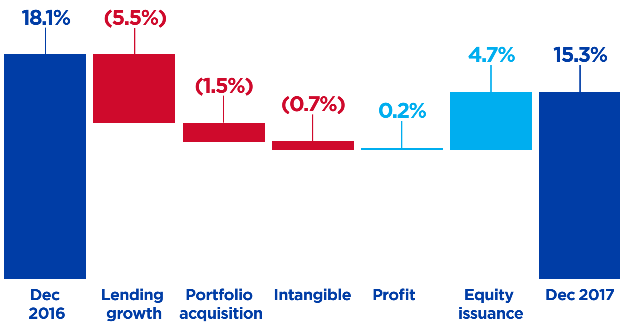
92% of the store's safe deposit boxes are currently occupied and cover all of the store's rental costs.

### Example store P&L: Ealing

| | Y1 £'000 | Y2 £'000 | Y3 £'000 | Y4 £'000 |
|---|---|---|---|---|
| Deposits | 44,581 | 153,232 | 226,255 | 290,347 |
| Number of customer accounts | 10,399 | 17,603 | 24,949 | 31,870 |
| Total income | 812 | 2,903 | 4,498 | 6,931 |
| Income growth | – | +258% | +55% | +54% |
| People costs | 647 | 669 | 699 | 702 |
| Property costs | 837 | 776 | 795 | 841 |
| Other costs | 162 | 126 | 111 | 195 |
| Total store operating expenses | 1,646 | 1,571 | 1,605 | 1,738 |
| Cost growth | – | (4)% | +2% | +8% |
| **Store contribution** | **(834)** | **1,332** | **2,893** | **5,193** |

Capital is held to protect depositors, cover inherent risks and provide a cushion in the event of a stress event. We're committed to maintaining a strong capital base under both existing and future regulatory requirements. In July 2017, the Group successfully completed a £278 million capital raise from existing and new shareholders via an accelerated book build. The raise was significantly oversubscribed, with shares issued at full market value, demonstrating the continued confidence that investors have in our vision. The capital raise incurred associated expenses of £3 million which were offset against share premium.

### CET1 ratio bridge




IFRS 9 was implemented on 1 January 2018. The transitional disclosures can be found in note 30 to the financial statements on page 127. As at 31 December 2017, the opening balance sheet adjustment, to be recognised in 2018, is to increase credit impairment provisions by £22.7 million before tax. Separately, there is an increase in asset values of £6.8 million due to changes arising from the revised classification and measurement requirements. After deferred tax adjustments of £3.8 million, this results in a net decrease in equity of £12.1 million. We have elected to adopt the transitional arrangements issued by the European Banking Authority, enabling us to reduce the capital impact of the transition in the first five years following adoption. The initial impact of IFRS 9 on our regulatory capital base will be immaterial.

As our balance sheet growth continues, we will need to raise additional qualifying regulatory capital. Based on our current growth expectations and expected regulatory requirements, we have sufficient capital for 2018. We do need to raise capital in early 2019 but, as a conservative bank, our approach will be to raise capital ahead of need. With a current capital base consisting of equity only, we expect our next capital raise to be in the form of loss absorbing debt. Our intention is to maintain a minimum CET 1 ratio of 12 and a minimum regulatory leverage ratio of 4%.

The transition arrangements for MREL, the new framework outlined by the Bank of England to determine the minimum amount of loss absorbing resources will apply from 1 January 2020. We expect to fully meet the MREL requirements at that point and estimate we will need to raise c£750m of MREL qualifying debt by then. We currently expect to start to raise MREL debt in 2019.

### Looking ahead

Our seventh year has been truly exceptional. We've delivered our first annual profit, celebrated our millionth customer and topped £11 billion in customer deposits. These achievements are testament to our low-risk operating model, our unique culture and our unrivalled focus on creating FANS.

Next year we'll continue to execute our strategy. This will include expanding our footprint further west to Bristol and Cardiff and north to the Midlands. In addition, we'll bolster our presence in the south-east, starting with the opening of our new Watford store in the second quarter. Combined with online growth, this will maintain our momentum of attracting low cost deposits combined with low risk lending.

We expect to see a sustained positive trajectory in our profitability, achieved through a combination of continued balance sheet growth and cost control. I am proud that we have unveiled our 2023 targets, the next milestone in our growth. We expect to see a sustained positive trajectory in our profitability, achieved through a combination of continued balance sheet growth and cost control. At the same time, we remain committed to maintaining our investment in our colleagues, our technology and our stores, which are the backbone of our business and key to delivering our targets in 2020, 2023 and beyond

**Mike Brierley**
Chief Financial Officer
1 March 2018

# GROWING METRO BANK, SAFELY AND SUSTAINABLY

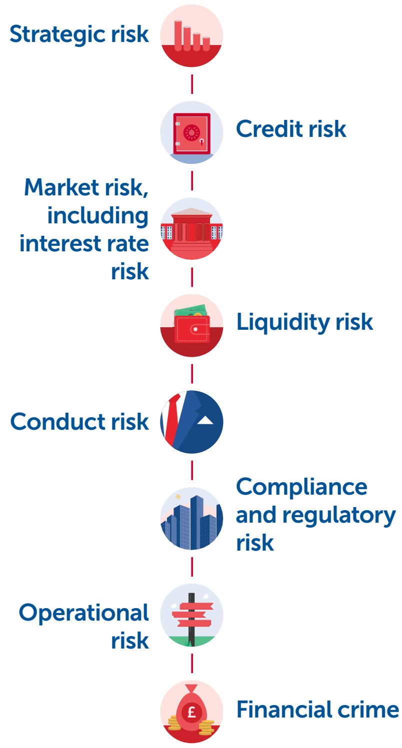
We aim to manage the risks inherent in our business activities, ensuring that our operations are carried out in a safe and compliant way, balanced with the strong customer service that enables us to create FANS.

Aileen Gillan – Chief Risk Officer

### Risk strategy

We adopt best practice in corporate governance, risk management and control appropriate to the size and complexity of our business. All our colleagues are responsible for managing risk as part of their day-to-day role. Customer-facing colleagues are at the forefront of risk management, along with their line managers. The Risk function, including the underwriting, credit risk and analytics, treasury risk, and enterprise risk teams, oversees the risk management activities. The function also supports other colleagues in their risk management work, for example by providing centralised 'bump-up' support contacts for more complex requirements, freeing up customer-facing colleagues to focus on creating FANS.

**Given the nature of our activities, the principal risks and uncertainties we face are:**




The Board has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite. The strategy and risk appetite consider the interests of customers, shareholders and other stakeholders. Taking into consideration the advice of the Risk Oversight Committee, the Board specifically approves the level of risk acceptable under each category of risk, and ensures there is an adequate framework in place for reporting and managing those risks.

It is also responsible for maintaining an appropriate control environment to manage the principal risks and for ensuring the capital, liquidity, and other resources are adequate to achieve our objectives within our risk appetite.

The Risk function provides specialist knowledge and support to colleagues throughout the Bank and acts as a reference point for queries, while also overseeing colleagues and the risks and controls in place. The function operates themed, targeted and ad-hoc reviews to provide assurance to the leadership team – and ultimately to the Board – that risks are properly managed, controls are effective, and that we're not exceeding our risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of the Bank's internal controls to the Audit Committee. This 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 our Internal Audit function. Internal Audit carries out both regular and ad-hoc reviews of risk management controls and procedures, and reports the results to the Audit Committee. The Director of Internal Audit's reporting line is to the Chairman of the Audit Committee – with a dotted line to the CEO – and therefore supports the function's independence.

The Risk Oversight Committee helps the Board provide leadership, direction and oversight of our risk governance and management. It also helps the Board foster a culture that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control when creating FANS.

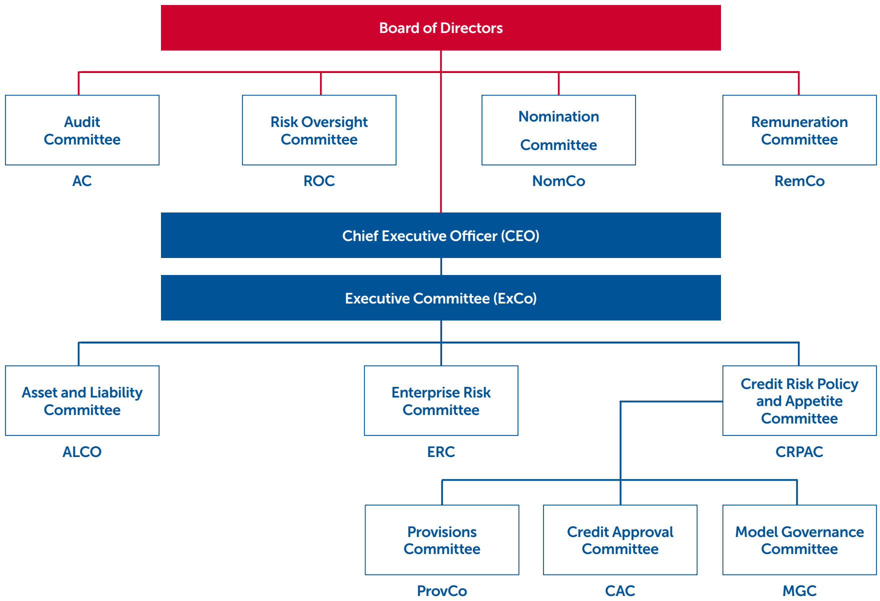
We've established our risk management policies to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Risk team regularly reviews these policies and controls to verify compliance and to reflect changes in market conditions and the Bank's activities. We use training and management standards and procedures to develop a robust and effective control environment – one where all colleagues understand their roles and obligations.

Our Chief Risk Officer ('CRO') leads 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're sufficiently robust – 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 we are operating within our risk appetite. She is the Bank's designated Money Laundering Reporting Officer ('MLRO'). The CRO has access, and a dotted reporting line, to the Chairman of the Risk Oversight Committee.

Our model has three lines of defence for risk management:

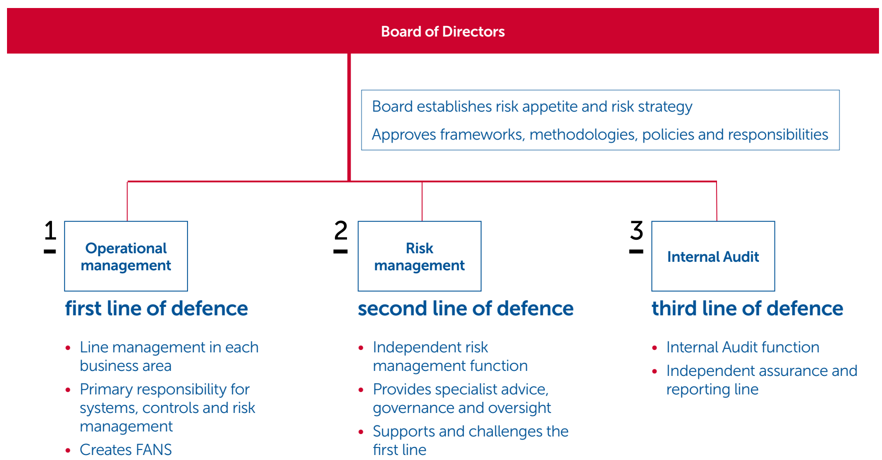
- Operational management, the colleagues who lead and manage our front line from day to day
- Governance and oversight, which is provided by the Risk function and includes all significant risk categories, such as credit risk, compliance and conduct risk, operational risk, market risk, interest rate risk and liquidity risk
- Internal Audit, which provides independent assurance through reviews and reports the results to the Audit Committee

## Committee structure and risk responsibilities




This graphic illustrates the key committees of the Bank with risk responsibility – to keep it simple, not all are shown.

## Three lines of defence model



# RISK FACTORS AND MANAGEMENT CONTINUED

Effective risk management lies at the heart of how we work. The table below shows our strategic, credit, market, liquidity, conduct, compliance and regulatory, operational and financial crime risks and explains how we manage them.

| Risk factor | Change in year |
|---|---|
| **1 Strategic risk**<br>Strategic risk is the risk that we do not achieve short and long-term business objectives because we fail to either: maintain our unique culture; maintain our differentiated model which delivers 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. Such failures could mean we don't create FANS or deliver outcomes expected by stakeholders (customers, colleagues, shareholders, investors, communities and regulators). | As we grow, it remains important to maintain our unique culture while continuing to deliver the outcomes our stakeholders expect. We also need to continually adapt to developments in technology, the markets, the law and competition, and to respond to changes in the banking sector which affect the way we do business. |
| **2 Credit risk**<br>Credit risk is the risk of financial loss due to a customer's failure to meet the terms of any contract or failure to perform as agreed. Our detailed lending policies 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. | Our fundamental approach to credit risk management remains unchanged. Our underwriting teams have grown in size and scope as the Bank has grown, and our risk measurement has been enhanced by the work on the AIRB models.<br><br>As the portfolio matures, the proportion of loans subject to enhanced oversight owing to deterioration in the borrower's credit quality has increased, albeit to a very modest degree. Our Business and Credit Support team, which is part of the Credit Underwriting function, manages these exposures closely and has a strong track record of obtaining recovery. |
| **3 Market risk**<br>Market risk is the risk that changes in market prices, such as interest rates or prices of investment securities, will affect our income or the value of our holdings of financial instruments. The objective of our 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. | We remain focused on managing market risk within our defined limits. The Treasury and Treasury Risk functions work closely together and ensure that risks are managed appropriately – and that we're well positioned to avoid losses outside our appetite, in the event of unexpected market moves. |
| **4 Liquidity risk**<br>Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities that are settled by delivering cash or another financial asset, or will incur a disproportionate cost in meeting these obligations. | Our liquidity position has remained stable over the year with our Liquidity Coverage Ratio ('LCR') remaining strong at 141% (2016: 136%) and we hold excess liquidity over our requirements. Funding risks are well-managed; a number of factors, including the Bank of England's Term Funding Scheme, have resulted in an easing of liquidity conditions compared to 2016. |

No change
Risk increased
Risk decreased

## Management

We manage this risk by frequently considering a broad range of management information and key performance and risk indicators at Business Risk Committees, the Executive Leadership Team and the Board. We also carry out regular reviews of performance against the business plan – also at the Executive Leadership Team – and these provide early warnings of where planned delivery maybe at risk. Additionally, we look externally, both within financial services and across other industries, for innovations and market developments with which we can improve the Bank.

The CRO is responsible for managing our credit risk by:

- 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)

We aim for a well-balanced loan portfolio, through the economic cycle, weighing risk and reward appropriately in lending decisions. Our detailed lending policies ensure that we base credit risk-taking on sound credit risk principles. We set limits for each borrower, together with large exposure limits consistent with prudential regulatory rules. We also measure concentration risk, loan arrears and bad debts. For quantification of credit risk, we currently use the Standardised approach assessed under Basel II, Pillars 1 and 2. The first round of our AIRB application has been submitted – and we continue to work on modelling with a view to further extending our use of this approach.

Additional information about our credit risk exposures can be found in note 22 to the financial statements on page 115

Day-to-day management of market risk is the responsibility of the Treasury team, with oversight from Treasury Risk.

We aim to minimise earnings shocks or surprises. We don't undertake proprietary trading activities and only hold high-rated investment securities. Our management team regularly monitors exposures to price risk and movements in investment value through the Asset and Liability Management Committee ('ALCO') and regular Treasury reporting.

We do not sell derivatives or other complex products to customers.

We are mindful of upcoming regulatory changes, such as ring-fencing, as we shape the investment portfolio in 2018 and beyond.

Additional details of our market risk management are included in note 24 to the financial statements on page 121

We aim to hold a prudent level of liquidity to cover unexpected outflows, ensuring that we are able to meet financial commitments for an extended period. We recognise the potential difficulties in monetising certain assets, so set higher-quality targets for liquid assets for the initial part of a stress period. We have assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and maintain an appropriate liquidity buffer at all times. Our LCR ensures that we comply with our own risk appetite as well as regulatory requirements. In addition to cash and balances at the Bank of England, we hold a range of marketable assets, including covered bonds and government debt, which are highly liquid assets. We also maintain a balance sheet structure that limits our reliance on potentially volatile sources of funding.

The Board sets our risk appetite and policy for managing liquidity risk, and delegates responsibility for oversight of this policy and its implementation to the Asset and Liability Committee ('ALCO'). The Treasury team manages our liquidity position on a day-to-day basis under the oversight of the Chief Financial Officer and ALCO. The Treasury Risk team circulates detailed daily management information to the Treasury team and relevant members of the Executive Leadership Team, regarding the outcome of our combined stress-test scenario. This is summarised to ALCO, ROC and the Board at each of their meetings. Our approach is to ensure that we can both meet payments as they fall due and support asset growth in line with plan – in both normal conditions and in the event of a liquidity stress – and that we can survive a severe liquidity stress event and continue as a going concern.

Additional information on our liquidity position at year-end is available in note 23 to the financial statements on page 119

# RISK FACTORS AND MANAGEMENT CONTINUED

| Risk factor | Change in year |
|---|---|
| **5 Conduct risk**<br>Conduct risk is the risk that our operating model, culture or actions result in unfair outcomes for customers. Our priority is to effectively manage risks that may impact our customers. We manage conduct risk consistently with our overall risk appetite and aligned with our strategy of creating fans. Conduct risk may arise from any aspect of the way we conduct our business – our aim is to avoid conduct that may result in unfair outcomes for customers. | Our simple, transparent product range and activities continue to ensure that customer outcomes are fair. Ongoing work ensures that our communications are clear, fair and not misleading, and that sales incentives in stores neither exist nor are perceived by colleagues to exist. |
| **6 Compliance and regulatory risk**<br>Compliance and regulatory risk is the risk of financial loss or reputational damage due to regulatory sanctions. These include 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 range and complexity of regulations with which we are required to comply has increased. During 2017, work was ongoing on a number of projects relating to regulatory changes. These included the 4th Money Laundering Directive ('4MLD'), the General Data Protection Regulation ('GDPR'), and the second Payment Services Directive ('PSD2'). Regulatory appetite for non-compliance is negligible and sanctions for violations are increasing. |
| **7 Operational risk**<br>Operational risk is the risk of direct or indirect impact from failed or inadequate processes, people or systems, or exposure to external events. This impact could be financial or non-financial in nature. Non-financial impact includes customer detriment, regulatory action or reputational consequences. | Operational risk is a key focus area. We remain vigilant regarding fraudulent actions, and have a range of system, process and people improvements in place to minimise the impact on the Bank and our customers.<br><br>In common with the industry at large, we continue to see increases in both the quantity and sophistication of cyber-crime attempts. We expanded and upskilled our Information Security team during 2017. In conjunction with other firms, we share threat intelligence through industry forums and work closely with law enforcement to pre-emptively reduce the cyber security risks to which we are exposed. |
| **8 Financial crime**<br>Financial crime is the risk of financial loss or reputational damage. This could be 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. Such crime includes internal or external fraud, money laundering, terrorist financing, bribery and corruption and sanctions non-compliance. | Financial crime risk, which we assess as a key risk, remained stable during 2017. We have grown our second-line AML team substantially, and also enhanced our assurance and oversight activity. Further ongoing enhancements to our systems and processes – such as machine learning and additional screening rules – will enable us to remain on top of the constantly evolving challenges in the area of financial crime. |

No change
Risk increased
Risk decreased

## Management

We have a range of controls in place to mitigate this risk – and our service-led business model and absence of legacy issues give us inherent advantages. We don't offer sales-based incentives to store colleagues. The simplicity of our product range, together with our culture of delivering unparalleled levels of service and convenience to customers, help ensure that we consistently deliver fair customer outcomes. This has resulted in a low level of reportable complaints, below the industry average. We constantly analyse the root cause of complaints, as well as any underlying trends, to identify opportunities to improve service provision while delivering consistently fair outcomes for customers.

The Board is focused on responding effectively and in a timely manner to changes in the regulatory environment to ensure continued compliance with regulatory requirements – and we allocate appropriate resource to achieve this.

We aim to maintain robust operational systems and controls and use rigorous planning and testing to make sure that we can respond to unexpected events in an organised and timely manner. 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 requires the first line of defence to maintain a risk and control self-assessment for each business area. This records that area's risks rated by impact and likelihood, before and after taking into account any mitigating controls. These controls are maintained in a library linking each risk to its appropriate controls. The second line has responsibility for carrying out control testing and themed reviews.

We have continued to invest time and resources into improving operational resilience both in the context of day-to-day operations and responding to specific events.

We are required to have effective procedures, systems and controls in place to detect and prevent financial crime. We are committed to complying with our legal and regulatory responsibilities in relation to financial crime, and have no appetite for non-compliance.

In order to support our growth plans, we're dedicated to maintaining a robust control environment. This enables us to respond effectively to emerging financial crime threats, which are becoming more frequent, more varied and more innovative. The need to protect the Bank, our customers, assets and society from the impact of financial crime has never been more challenging. We constantly review our internal systems and processes to ensure they provide adequate protection against new and emerging threats. We hold induction and training programmes for colleagues – covering all aspects of financial crime – and these help us to protect customers and assets.

Our robust framework assesses and monitors risks in relation to customers, relationships, transactions and payments. The aim is to ensure that there are tailored, risk-based systems and controls in place to manage potential risks, and avoid losses, reputational impacts or degradation of customer experience.

Oversight and monitoring of our systems and controls is through the three lines of defence: (i) our 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.

We have made significant investment to enhance systems, controls and people to support the execution of our business strategy, and to ensure that we have robust and sustainable models as we grow. This includes continuously enhancing our transaction monitoring and surveillance system for anti-money laundering, counter terrorist financing and sanctions.

# RISK FACTORS AND MANAGEMENT CONTINUED

## Emerging risks and mitigations

We have identified a number of emerging risks that have the potential to adversely impact our activities. These include:

| Emerging risks | Mitigations |
|---|---|
| **Developments in conduct regulation and regulatory activity** | As we continue to grow, we're invited to participate in more market studies and thematic reviews, with regulators proactively looking to pre-empt the next mis-selling scandal and limit customer detriment. We continue to keep the customer at the heart of our business, and are confident that the absence of sales incentives for store colleagues – alongside a values-first culture at every level of the organisation – will ensure that we don't fall foul of system-wide high-profile scandals such as those seen with payment protection insurance, packaged accounts and other products.<br><br>The Second Payment Services Directive comes into effect in 2018, with expansion in the Senior Managers and Certification regimes also on the way. 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. The FCA has alerted retail banking firms about the risks to technology resilience and we expect that this will lead to additional activity in 2018 and beyond. |
| **Cyber security** | With cyber-crime continuing to pose a significant threat to the financial services industry as a whole, we've invested in technology and expertise to strengthen our defences. Our 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.<br><br>We partner with industry-leading experts to ensure that any risk management approach is robust and proportionate, and evolves in line with developing threats.<br><br>We are a member of several industry forums, which enable us to keep abreast of external developments that carry the potential to affect our operations. We also collect intelligence and assess our exposure, implementing preventative measures as appropriate, and continue to invest in cyber security. |
| **Brexit** | The UK remains on course to exit the European Union in March 2019. We don't have operations outside the UK, and less than 5% of accounts (by balance) are non-sterling denominated.<br><br>We note market concerns about the future post-Brexit. Amongst other impacts, Brexit may affect the availability of skilled colleagues and contractors to support companies' growth plans, reduce customer confidence, and increase operating costs, particularly where firms depend on suppliers domiciled outside the UK. We continue to monitor this risk. |
| **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 took effect in July 2017, and legislative developments continue in this sector. These include the Criminal Finances Bill, which 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. Regulation around ring-fencing will also affect us in the future, and while we currently do not expect to be in scope in the next three to four years, some decisions, including investments we make and products we launch, will have a long-term impact which may affect us at a later time when we have become subject to these regulations. |

| Emerging risks | Mitigations |
|---|---|
| **Growth** | Our pace of growth has the potential to increase operational risk – and, as a result, we have invested heavily in people and infrastructure. Our superior customer experience is supported by an end-to-end technology infrastructure that provides a single customer view, enabling better customer service and more efficient colleagues.<br><br>We continue to enhance our technology stack to enable customer-facing colleagues to focus on their core role of delivering amazing customer service, rather than struggling to operate systems. |
| **Digital** | Internet and mobile technologies are changing the way banks interact with customers and increasing the industry's reliance on technology and infrastructure. We're investing in our digital platforms and building resilient and secure technologies. Technological evolution will require us to be continually 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 IFRS 9 introduce new credit loss models and changes to the way in which firms must account for financial assets. |

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

**Vernon W. Hill, II**
Chairman
1 March 2018

## 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.

While 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. 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 capital to fund our anticipated growth and to meet regulatory requirements.

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 30 to 37 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.

# CREATING FANS, CREATING CAREERS, CREATING A LEGACY

### Our AMAZEING behaviours

- **A** – **Attend to every detail**
- **M** – **Make every wrong right**
- **A** – **Ask if you're not sure – bump it up!**
- **Z** – **Zest is contagious, share it!**
- **E** – **Exceed expectations**
- **I** – **Inspire colleagues to create FANS!**
- **N** – **Nurture colleagues so they grow**
- **G** – **Game change because this is a revolution**

## Our approach

Environmental, social and governance ('ESG') at Metro Bank comes down to doing the right thing. And for a business focused on customers and colleagues, for the long term, that's in our DNA. Our AMAZEING behaviours underpin everything we do. We focus on putting FANS first, making Metro Bank a great place to work, supporting our communities and managing the other impacts we have, for example on the environment. We are open and transparent about our responsible business activities.

Learn more about our approach at metrobankonline.co.uk

## Our priorities

Our long-term success depends on creating value for our customers and wider stakeholders. Knowing what matters to them helps us to evolve our vision and approach keeping stakeholders at the heart of what we do.

In 2017, we asked Deloitte to assess our most material ESG priorities to inform our reporting on responsible business, and to highlight potential risks and opportunities that might inform the decisions we make. The six priorities are detailed in the materiality matrix below:

## Our FANS (1)

### Brand awareness

Our business is built on our FANS recommending us to their friends, family and colleagues. To do this, it's clearly essential that people know who we are – and in London, the area where we have the majority of our stores, we have brand recognition of 89%*. A fantastic performance for an organisation which attracts new customers solely through word of mouth.

Knowing about Metro Bank is just half the story. For a brand that wants its customers to be FANS, the Net Promoter Score ('NPS')†, provides helpful insight on whether we're achieving that ambition. During 2017, our NPS was over 80%.

* YouGov Plc. Total sample size was 1004 adults. Fieldwork was undertaken between 8th – 12th February 2018. The figures have been weighted and are representative of all London adults (aged 18+).

† See page 136 for further details.

### Our priorities

| Priorities | Description | More info |
|---|---|---|
| 1 Our FANS | Providing excellent service to customers each and every time | Page 38 |
| 2 Our colleagues | Creating FANS by providing excellent service to each and every customer | Page 39 |
| 3 Our communities | Engaging with the communities we proudly serve | Page 40 |
| 4 Data privacy and security | Protecting our customers' data just as we do their money | Page 40 |
| 5 Our planet | Being aware of our impact on the environment | Page 41 |
| 6 Our suppliers | Treating everyone fairly and doing our bit to make sure our partners do too | Page 41 |

### Materiality matrix


Strategic report
Governance
Financial statements

## Our colleagues 2

### Culture and diversity

We are all equal at Metro Bank, and our inclusive approach celebrates diversity. Our colleagues represent the communities we serve and the locations where we're based. We know that our supportive culture is one of the reasons we attract, retain and develop our colleagues, and importantly allow everyone to bring their whole selves to work.

We have a number of colleague networks, including WOW (Women on Work), Mpride for our LBGT+ colleagues and our most recent group Mbrace for our Black, Asian and Minority Ethnic ('BAME') community. All groups are open to all colleagues, regardless of race, gender or sexual orientation and all have the aim of helping everyone be at their very best.

Learn more about our AMAZEING culture and colleagues on page 24.

We're proud of our ethnic diversity:

| | |
|---|---|
| Asian British | 24.3% |
| Asian Other | 6.9% |
| Black British | 8.2% |
| Black Other | 2.1% |
| Mixed British | 2.1% |
| Mixed Other | 2.4% |
| White British | 41.1% |
| White Irish | 0.7% |
| White Other | 8.0% |
| Undisclosed | 4.2% |

We have gender diversity at every level in Metro Bank:

Executive Leadership Team ('ELT')[1]

4 (44%) | 5 (56%)

Senior leaders[2]

22 (28%) | 57 (72%)

All colleagues

1,441 (47%) | 1,649 (53%)

1 ELT are deemed to have responsibility for planning, directing or controlling Metro Bank or a strategically significant part of it. Figures exclude Executive Directors. Information on Board level diversity can be found on page 63.

2 Senior leaders are defined as members of the ELT (including Executive Directors) as well as those in a senior management position who report directly to a member of the ELT

### Listening to colleagues

Our colleagues are the heart of our business, so we work hard to understand how they feel about Metro Bank as an employer, as a place to work and as a provider of banking services. Every year we run a Voice of the Colleague engagement survey. In our 2017 survey, over 92% of colleagues took the time to share their views. We use the results to help us to continuously improve our colleagues' experiences.

We partner with a text analytics company to give us deep insight around the free text questions we also ask every colleague as part of the survey.

The headlines from this year's survey are:

- 97% of colleagues understand how their role contributes to the overall success of Metro Bank
- 96% of colleagues feel encouraged to escalate an issue, or 'bump it up'
- 96% of colleagues think that Metro Bank is a good place to work
- 89% of colleagues believe there are opportunities for career progression and promotion

# ENVIRONMENTAL AND SOCIAL SUMMARY CONTINUED

### Recruiting talent

We are the only bank to feature in the 2017 Glassdoor Employees' Choice Awards Top 50. The awards, now in their tenth year, rely solely on the feedback of current and former colleagues, who provide insight into their jobs, work environments and companies through the Glassdoor site. In addition, the website also included Craig Donaldson, our CEO, in its list of Most Highly Rated CEOs for the second year running.

This accolade, along with the Most People Focused CEO award at HR Magazine HR Excellence Awards and the Progression Programme of the Year award at the Social Mobility Awards 2017, validate our continuous focus on culture. By empowering colleagues and creating the conditions for them to exceed customers' expectations, we allow them to thrive.

During the year, we created nearly 600 new jobs and promoted more than 640 colleagues. We're committed to supporting colleagues and investing in their careers, and over the past 12 months have helped 60 new leaders 'Learn to Lead', supported 100 colleagues on fast track schemes and specialist studies, and enabled 350 colleagues to gain professional banking qualifications.

Also in 2017, we became an Apprenticeship Training Provider, allowing us to deliver apprenticeship training.

## Our communities 3

We are proud to be an integral part of the communities we serve. Because of our store footprint, over 3,000 dedicated colleagues and the FANS who visit us every day, we were able to make a tangible difference to the towns, cities and communities we call home. We hosted over 2,500 events in our stores and local schools and businesses, ranging from financial education for young people and networking events, through to pumpkin carving, Christmas crafts and our legendary new store Grand Openings – complete with celebrity dogs, community disco and stilt walkers. We clocked up hundreds of hours worth of 'Days to Amaze', where our colleagues give time out of their working day to support the causes close to their hearts.

Our customers also supported three charities; Place2Be, Alzheimer's Research UK and Battersea Dogs Home, through donations via our Magic Money Machines. 2017 also saw us extend our work supporting dementia sufferers with the roll-out of Dementia Friends training. Devised by the Alzheimer's Society, this initiative helps colleagues learn more about dementia and how we can help our customers and friends or family members suffering from the disease.

## Data privacy and security 4

As well as trusting us with their money, FANS also trust us with something just as important, their data. We do everything we can to keep our customers' details safe and to reduce the risk of financial crime, both against us and our customers.

We achieve this through continuing to invest in market leading technology. During the year we implemented Pindrop, spoof detection software which analyses each call made to our contact centres to identify any noises which are not consistent with our knowledge of the customer calling. This helps give us confidence that we are speaking to a genuine customer, therefore keeping their data and their money safe from fraudsters.

**It's never too soon to learn about money**

At Metro Bank, we're passionate about making sure the young people in our communities have the opportunity to learn about money. Our Money Zone programme, launched in 2011, helps KS2 (age 8 to 10) children acquire financial skills and develop an understanding of how money, saving and banking works and the role it plays in their everyday lives. In 2017 we hosted over 900 sessions, reaching over 27,000 .

The programme is hosted over three sessions in class, with the fourth session being a store visit which really brings banking to life. The sessions are hosted by Metro Bank Prefects. Colleagues go through intensive training to be able to deliver this programme and many report that it is one of their highlights of the year. Since launching the Money Zone programme, we've helped more than 100,000 young people become more confident around money.

## Our planet 5

We're a growing bank, and are conscious of our impact on the environment. Across our entire store network, we give our FANS the choice to go paperless, reducing the amount of excess waste produced. As cards are printed in store with current account opening, our 'walk out working' approach means there is little need for extensive bureaucracy and paperwork. Where possible we aim to minimise our impact on the environment. This includes encouraging recycling and using energy efficient lighting in our branches and offices and introducing hybrid vehicles for our people's business travel.

Our emissions during the year grew by 9%, significantly less than the growth of the bank. Emissions per FTE are down 12% thanks to the initiatives we have introduced.

We've reported on our emissions in line with the requirements of the Companies' Act 2006 (Strategic and Directors' Reports) Regulations 2013.

### Summary table for GHG emissions

| GHG emissions | Tonnes CO2e 2017 | Tonnes $CO_2$e 2016 |
|---|---|---|
| Scope 1 emissions | **1,312** | 1,158 |
| Scope 2 emissions | **4,668** | 4,303 |
| Total Scope 1 and 2 emissions | **5,980** | 5,461 |

The assessment period is aligned with our financial year – 1 January 2017 to 31 December 2017.

Details of the reporting criteria can be found in our separate ESG document which is available at metrobankonline.co.uk

We selected operational control as our consolidation approach, and our boundary includes all entities and facilities either owned or under our control.

We understand that we have the opportunity to reduce our environmental impact not only directly through our operations, but also indirectly, through the customers we lend to and the products we provide. We will consider how best to report more on these indirect impacts in future reporting.

## Our suppliers 6

Building a revolution in British banking takes a lot more than just our colleagues. We pride ourselves on doing the right thing and maintaining the highest values in everything we do and this extends to the suppliers we engage with.

### Anti-bribery and corruption

We are committed to maintaining the highest standards of ethics and integrity. Any act of bribery or corruption is unacceptable and we take the same approach with our suppliers.

In 2017 we established a specific supplier assurance function to ensure we maintain our high values in all aspects of our supply chain and conduct due diligence on new third party suppliers, including preventing bribery and corruption.

### Modern slavery

Our philosophy is to conduct all business in an appropriate manner. Slavery, servitude, forced labour and human trafficking (modern slavery) is a crime and violation of fundamental human rights. We have zero tolerance to modern slavery and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate. We aim to enforce appropriate systems and controls to help us to ensure modern slavery is not taking place anywhere in our business, in any of our suppliers or, through them, in our supply chains.

During 2017, we introduced a number of initiatives and processes to support our Modern Slavery Policy, including:

- Publishing Metro Bank's Modern Slavery Statement, approved by the Board and signed by Craig Donaldson, CEO, on our website in June 2017 (metrobankonline.co.uk)
- Appointing a Modern Slavery Champion, who is a member of the Board, and whose responsibilities include: ensuring and overseeing the integrity, independence and effectiveness of the Policy; ensuring colleagues receive annual training to raise awareness of the Policy; and reporting to the Board at least once a year on the operation and effectiveness of the Policy. The first report to the Board is due in May 2018
- Using the Financial Services Supplier Qualification System ('FSQS') to conduct due diligence on suppliers before contracting, on a risk basis, as appropriate
- Developing a standard modern slavery clause for supplier relationships to ensure that suppliers are obliged to comply with the requirements of the Modern Slavery Act
- Implementing an e-learning module, which was completed by colleagues in December 2017

Our Modern Slavery Statement is available at metrobankonline.co.uk

# ENVIRONMENTAL AND SOCIAL SUMMARY CONTINUED

## Our policies

Our risk management policies and controls are reviewed regularly to reflect changes in market conditions, regulations, and our activities. Through regular training and additional standards, guidance and procedures, we aim to develop a robust and effective control environment in which all our colleagues understand their roles and obligations.

The Chief Risk Officer ('CRO') is accountable for leading the Risk function, which is the second line in our three lines of defence model. The CRO 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. All policies are approved by the Board at appropriate Board committees following recommendations by the relevant management committee.

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. No material instances of non-compliance were identified in 2017 in relation to our risk management policies. A summary of our policies relating to our material ESG priorities can be found below.

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

**Craig Donaldson**
**Chief Executive Officer**
1 March 2018

| Policy | Description | ESG Priorities |
|---|---|---|
| Treating Customers Fairly | The policy reflects our goal to create fans through the delivery of consistently AMAZEING outcomes. This philosophy is embedded in our culture and is an integral part of our business model and strategy. Our zero tolerance for unfair customer outcomes is underpinned by our Conduct Risk framework which was approved by the Board. | 1, 2 |
| Lending Policies (including residential mortgage, retail unsecured finance, private banking credit, commercial, arrears management) | These policies make sure that we're lending in the right way. They ensure the effective and prudent management of credit risk, in-line with the risk appetite defined by the Board, regulatory requirements, statutes and industry good practice. | 1 |
| Anti-Money Laundering/ Counter Terrorist Financing | The policy sets out the systems and controls to identify, assess, monitor and manage financial crime risks and the procedures in place to assess their effectiveness. | 1, 2 |
| Diversity and Inclusion | The policy means that we treat our colleagues fairly. It sets out our commitment to employment policies which follow best practice, based on equal opportunities for all employees and the Board. | 2, 3 |
| Recruitment and selection | The policy relates to all recruitment related activities and is relevant for all colleagues and any 3rd party recruitment partners. The policy outlines responsibilities in accordance with Recruitment related legislation, regulation and company objectives. | 2 |
| Health and Safety | The policy protects our customers and colleagues. It recognises our statutory duties and responsibilities under the relevant Health and Safety and Welfare legislation. | 2 |
| Whistleblowing | The policy encourages colleagues to disclose information, in good faith and without fear of unfair treatment, when they suspect any illegal or unethical conduct or wrongdoing affecting the Bank. | 2 |
| Anti-bribery and Corruption | The policy outlines our approach in managing the risk of bribery and corruption and to ensure we conduct business in an honest and ethical way, with a zero tolerance approach to bribery and corruption. | 2 |
| Conflicts of Interest and related parties | The policy provides consistent practical guidance to all relevant parties in relation to the identification, recording and maintenance of actual and perceived conflicts of interest. | 3 |
| Business continuity | The policy makes sure we are able to continue delivering services to our customers at acceptable levels if something unexpected were to happen. It addresses impacts to the continuity of critical business activities in the case of man made disasters, natural disasters or other material events. | 4 |
| Data | The policy sets out our objectives and expectations in managing data and data governance practices. It makes sure that data is managed, governed, accessed, protected, utilised and disclosed appropriately. It also focuses on the quality of key data elements and their ongoing maintenance. | 1, 4 |
| Outsourcing | The policy ensures that when we rely on a third party for key processes and activities, we take the reasonable steps to avoid any unfair customer outcomes and unnecessary operational risk. | 3, 6 |
| Modern Slavery | The policy describes our approach towards preventing slavery, servitude, forced and compulsory labour and human trafficking in any of our operations or at any of our suppliers and, through them, our supply chains. | 6 |

Our planet (priority 5) is managed through our various policies. As a growing bank, we recognise the need to also minimise our impact on the environment. To date we have successfully driven progress without a bespoke environmental policy, but we will continue to review this approach for appropriateness.

Learn more about our policies with our separate ESG document which is available at metrobankonline.co.uk

# CORPORATE GOVERNANCE OVERVIEW

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

Mike Brierley – Chief Financial Officer and Company Secretary

**“Creating FANS is at the heart of everything we do, this is reflected in our robust governance framework”**

I am pleased to set out Metro Bank's Corporate Governance Statement for 2017. This has been a busy and exciting year – one where we've continued to surprise and delight our customers and created even more FANS. As a result, we've entered our first full year of profitability. Our governance structure provides sufficient challenge and support to the Bank and its Executive Leadership Team, enabling it to continue to grow in a safe and sustainable manner.

Metro Bank has a premium listing on the London Stock Exchange and is required to comply with the UK Corporate Governance Code ('the Code') published by the Financial Reporting Council in 2016 or to explain any areas of non-compliance and our reasons for these. I am pleased to report that during the period under review, we fully complied with the Code.

Our governance structure is largely unchanged from 2016. The Board support management and help develop strategy through effective debate and challenge. The Chairman sets the Board's agenda and ensures that it devotes sufficient time to the Bank's vision. The Board has an open culture which encourages challenge; it has a diverse mix of skills and experience which enables it to continue to operate effectively. All of the 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.

Alongside our day to day governance work, in 2017 we carried out an external Board evaluation in line with the requirements of the Code. The external Board evaluation process will complete in early 2018 and will help to ensure that the Board and its Committees continue to operate at maximum effectiveness. More details on the external Board evaluation process can be found on page 52.

We also coordinated the appointment of a new Non-Executive Director. Monique Melis joined the Board in June 2017; she brings a rare combination of international regulatory and compliance expertise as well as proven entrepreneurial experience gained in founding and growing her own successful business. Her insight, knowledge and skills complement the wealth of experience on the Board. More information regarding the process for appointments to the Board can be found in the Nomination Committee Report on page 62. We arranged a thorough and robust induction for Monique and continue to provide ongoing support to her as she settles into her new role. More details on new Director inductions can be found on page 52.

I will be retiring from my position as CFO and Company Secretary at the end of March 2018. I would like to welcome David Arden, who joins us from Sainsbury's Bank. David will be taking over the reins from me in leading the Bank's governance framework as both CFO and Company Secretary. I wish David well in his new role.

**Mike Brierley**
Chief Financial Officer and Company Secretary
1 March 2018

# BOARD OF DIRECTORS

**1 Vernon W. Hill, II**
**Chairman and Founder** N
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 a graduate of the Wharton School of the University of Pennsylvania. Vernon is Chairman of Republic First Bancorp, inc.

**2 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 and Liabilities Committee. He serves on the Board of Directors at TheCityUK as Chairman of the Audit and Risk Committee.

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

**4 Stuart Bernau**
**Non-Executive Director** A O
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.

**5 Keith Carby**
**Non-Executive Director** A R N
Keith was formerly CEO of the Caerus Capital Group. He is Non-Executive Chairman of both Censeo Ltd and Mill Capital Private Equity (Dubai). Keith was Joint Founder and Managing Director of J. Rothschild Assurance (now St. James's Place). He also founded the Financial Services Forum and was a founding trustee of the 9/11 London Project.

**6 Roger Farah**
**Non-Executive Director** R N
Roger is Chairman of Tiffany & Co. He 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.

## Key to Committees

A Audit

R Remuneration

N Nomination

O Risk Oversight

**7 Lord Flight**
Non-Executive Director R N
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 Aurora Investment Trust, Downing Four VCT and Flight and Partners, a Director of Investec Asset Management, Edge Performance VCT, a Commissioner of the Guernsey Financial Services Commission and Chairman of the EIS Association.

**8 Alastair (Ben) Gunn**
Senior Independent Director O
Ben was Chief Executive and then Chairman of Friends Provident Life and Pensions Ltd as well as 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 recently, he was the Senior Independent Director at Aviva UK and Chairman of the Audit Committee at Avelo.

**9 Gene Lockhart**
Non-Executive Director A O
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.

**10 Anna (Monique) Melis**
Non-Executive Director
Monique is a Managing Director and the Global Head of Regulatory Consulting at Duff & Phelps and is a member of Duff and Phelps' Luxembourg Management Company Board. With extensive financial services and regulatory experience across established and growth markets, her appointments have included Executive Board member at Kinetic Partners and roles at: the Cayman Islands Regulator and Stock Exchange ('CSX'), the Financial Services Authority and the Securities and Futures Authority.

**11 Sir Michael Snyder**
Non-Executive Director A O
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 Government's Professional and Business Services Council and chaired the Association of Practising Accountants. He is 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 of the Company who were in office during the year and up to the date of signing the financial statements and summaries of their key skills and experience are set out on pages 44 to 45.

The Directors have pleasure in presenting their Annual Report for the year ended 31 December 2017. As set out more fully in the 'Summary of significant accounting policies' within 'Notes to the financial statements, Accounting policies', this 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 49 to 53.

The Directors consider the Annual Report for the year ended 31 December 2017, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## Principal activities

Our principal activities during 2017 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. We're authorised to accept deposits under the Financial Services and Markets Act 2000, have a Consumer Credit Act licence and are members of the Financial Services Compensation Scheme.

## Results and dividend

The results for the year are set out in the consolidated statement of comprehensive income on page 87.

No dividend was declared or paid during 2017 (2016: £nil). The Directors do not anticipate declaring a dividend in the near future.

## Significant events

Further to the authority granted by shareholders at the 2017 AGM, on 26 July 2017 a further 8,020,000 new ordinary shares of an aggregate nominal value of £8.02 were issued at £34.65 per share. The issue followed the completion of a non pre-emptive cash placing of new ordinary shares, for gross consideration of £278 million. The new shares were admitted for trading on the London Stock Exchange on 28 July 2017.

## Articles of Association

The Articles of Association can be found on our website: metrobankonline.co.uk.

## Share capital

Our called-up share capital, together with details of shares allotted during the year, is shown in note 16 to the financial statements on page 111.

There are no restrictions on the transfer of the Company's share capital and there are no shares or stock which carry specific rights with regards to control of the Company.

The Directors seek annual authority from shareholders to allot new ordinary shares and to dis-apply pre-emption rights of existing shareholders in accordance with the Investment Association Share Management Guidelines.

## Directors' interests

Details of the Directors' beneficial interests are set out in the annual report on remuneration on pages 70 to 79.

## 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 53.

## 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 2017, the Group has been notified under DTR 5 of the interests in its issued share capital, and these are set out in the table below. All such shareholders have the right to vote in all circumstances at general meetings.

| As at 31 December 2017 | Ordinary shares held | % of total ordinary shares | Direct/ indirect interest |
|---|---|---|---|
| Cohen Private Ventures | 7,912,848 | 9.85 | Indirect |
| Wellington Management Group LLP | 3,641,556 | 4.53 | Indirect |
| Fidelity Management and Research | 6,850,023 | 8.53 | Indirect |

There have been no notifications received in the period from 31 December 2017 to the date of this report.

## Greenhouse gas emissions

Our energy consumption and associated greenhouse gas emissions during 2017 are set out in the Strategic report on page 41.

## Employee involvement

We encourage employee involvement in the Bank. Increasing employee awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. All employees are eligible to participate in our share option and/or share buy and share pool schemes.

## Diversity

We're 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 not only a key part of a responsible business strategy, but also supports a strong customer experience. We give 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, we make every effort to ensure that their employment continues and that we provide appropriate training and support. Our policy is 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. Our policy is to conduct all business in an appropriate manner and we have zero tolerance for modern slavery. The initiatives we have developed in 2017 can be found on page 41.

Our Modern Slavery Statement is available at metrobankonline.co.uk

## Risk management

The Directors confirm that they have undertaken a robust assessment of the principal risks facing the Group. We seek to manage all risks that arise from our activities. Details of risk management systems and the processes in place in relation to financial reporting, and details of risk management objectives and policies, are shown in the Risk Factors and Management Report on pages 30 to 37. As a result of normal business activities, we are exposed to a variety of risks – and the principal risks and uncertainties that we face 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

Our Viability Statement is set out on page 37.

## 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. The Audit Committee will be conducting an audit tender in 2018 and more details of this can be found on page 57.

## Political donations

We made no political donations in the year ending 31 December 2017 (2016: £nil).

## Research and development

We have an ongoing commitment to make banking more convenient for customers, and in 2017 we continued to invest in systems, procedures, products and services. As a result, we have capitalised £70 million of intangible assets.

## Post balance sheet events

A summary of the key post balance sheet events is set out in note 31 to the financial statements on page 131.

## Annual General Meeting

Details of this year's AGM can be found in the Shareholder Information section on page 137.

## Future developments

Our business and future plans are reviewed in the Chairman's Statement, CEO 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<br>Financial statements note 17 |
| Contracts of significance | Any contracts of significance or related party transactions can be found in note 26 to the financial statements |

## Corporate Governance Statement

The Corporate Governance Report on pages 49 to 53 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

Our 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 our 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 our assets and taking reasonable steps for the prevention and detection of fraud and other irregularities.

# DIRECTORS' REPORT CONTINUED

The Directors are responsible for the maintenance and integrity of the information included on our 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 44 and 45, 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 or loss of the Group taken as a whole; 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 taken as a whole, together with a description of the principal risks and uncertainties that it faces.

### Statement of disclosure of information to auditors

Each Director in office at the date of this Report, and whose name is listed on pages 44 and 45, 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 46 to 48 has been approved by the Board of Directors and signed on its behalf by

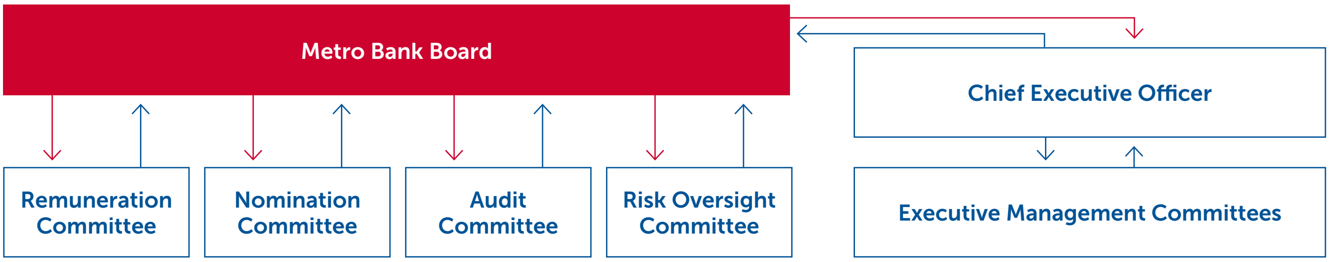
**Mike Brierley**
**Chief Financial Officer and Company Secretary**
1 March 2018

# CORPORATE GOVERNANCE REPORT

## Governance framework

The Board has a coherent corporate governance structure with clearly defined responsibilities and accountabilities. These have been designed to safeguard and enhance long-term shareholder value and provide a robust framework in which to deliver our strategy.

## Corporate governance structure




## Leadership

### The role of the Board

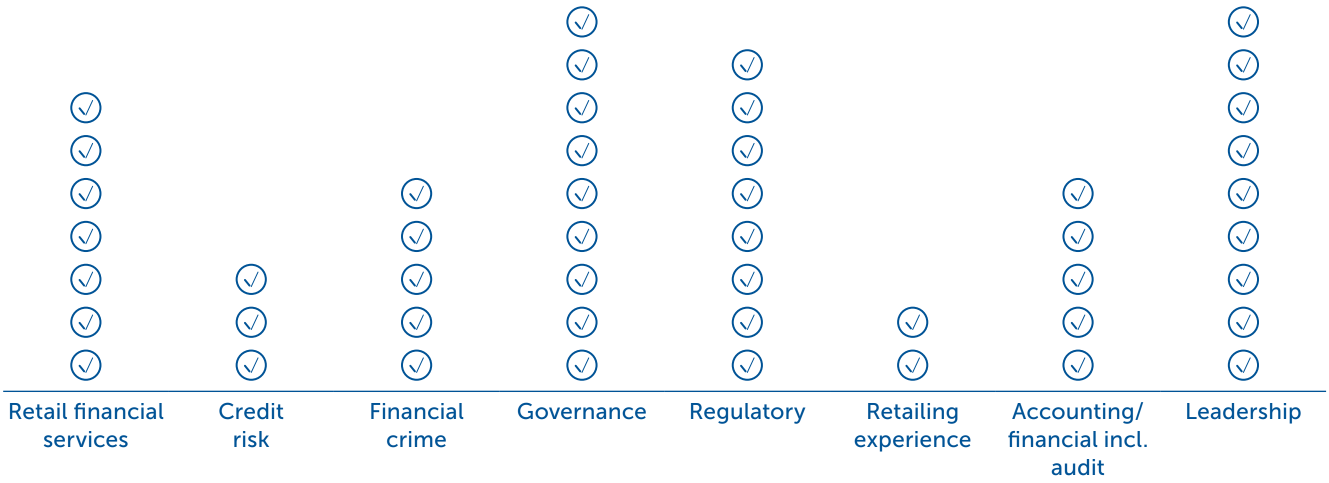
The Board is responsible to our shareholders and sets our strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Bank.

### The composition of the Board

The Board currently consists of the Non-Executive Chairman, two Executive Directors (the CEO and CFO) and eight 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.

The Directors' skills and experience span a wide range of sectors; a skills matrix is shown below. Each Director brings a wealth of experience and skills to bear on all aspects of the management of the Company.

## Board skills




Strategic report
Governance
Financial statements

# CORPORATE GOVERNANCE REPORT CONTINUED

## 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 Officer and more detail on this can be found on the Company's website metrobankonline.co.uk/investor-relations.

## Board attendance, role and responsibilities

| Role | Meetings attended 2017 | Responsibility |
|---|---|---|
| Non-Executive Chairman<br>**Vernon W. Hill, II** | ●●●●●●●●●● | Vernon leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Company, including overseeing the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of employees. He is responsible for ensuring that there are strong links between the Board and management and between the Board and shareholders. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. He reports to the Board and is responsible for the leadership and overall effectiveness of the Board. |
| Chief Executive Officer<br>**Craig Donaldson** | ●●●●●●●●●● | Craig is responsible for the day-to-day management of our operations, for recommending our 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. Craig reports to the Chairman and to the Board directly and is responsible for all executive management matters of the Bank. |
| Chief Financial Officer and Company Secretary<br>**Mike Brierley** | ●●●●●●●●●● | As Chief Financial Officer, Mike has responsibility for planning, implementing, managing and controlling all financial-related activities of the Company, both day-to-day and for the long term. He is responsible for managing the Bank's financial position including allocation and maintenance of capital, funding and liquidity. Mike reports to Craig and has oversight of the Treasury, Legal, Procurement and Investor Relations functions and is also responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting. As Company Secretary, Mike is responsible for advising and supporting the Chairman and the Board on good corporate governance and best boardroom practice. |

<table>
<tr><th>Non-Executive Directors</th><th></th><th>Responsibility</th></tr>
<tr><td>Senior Independent Director<br>Ben Gunn</td><td>●●●●●●●●●●</td><td>Ben Gunn is the Senior Independent Director ('SID'). His role is to act as a sounding board for the Chairman and to serve as an intermediary for Directors when necessary.<br><br>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.</td></tr>
<tr><td>Independent Non-Executive Director<br>Keith Carby</td><td>●●●●●●●●●●</td><td rowspan="7">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 were appointed for an initial two-year term but are re-elected on an annual basis</td></tr>
<tr><td>Independent Non-Executive Director<br>Gene Lockhart</td><td>●●●●●●●○○○</td></tr>
<tr><td>Independent Non-Executive Director<br>Monique Melis*</td><td>●●●●</td></tr>
<tr><td>Independent Non-Executive Director<br>Stuart Bernau</td><td>●●●●●●●●●●</td></tr>
<tr><td>Independent Non-Executive Director<br>Sir Michael Snyder</td><td>●●●●●●●●●●</td></tr>
<tr><td>Independent Non-Executive Director<br>Roger Farah</td><td>●●●●●●●●●●</td></tr>
<tr><td>Independent Non-Executive Director<br>Lord Flight</td><td>●●●●●●●●●●</td></tr>
</table>

* Appointed 21 June 2017.

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.

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. If 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.

### Matters reserved for the Board

The Board is responsible for setting and managing our strategic direction. 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 our 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 effective communication with shareholders, any changes to Board or Committee membership or structure, and has authority to recommend the Directors' Remuneration Policy to shareholders. The Board delegates responsibility for day-to-day management of the business to the Chief Executive Officer 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 year.

The Chairman, assisted 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.

During 2017, the key areas the Board has focused on include:

**Areas of focus**


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.

# CORPORATE GOVERNANCE REPORT CONTINUED

## 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 54 to 70. 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 our website metrobankonline.co.uk.

We keep the Terms of Reference of each Committee under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. They are also reviewed formally every year by the relevant Committee and the Board. Each Committee comprises independent Non-Executive Directors. Any future changes to the Committees will be made after the review and recommendation of the Nomination Committee.

## Effectiveness

The skills and experience of Board members are set out on pages 44 and 45. 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, with the exception of Monique Melis who was appointed in June 2017. New Directors undergo a formal induction programme upon appointment which is tailored to their existing knowledge and experience. Non-Executive Directors 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 our business, finances, risks, strategy, procedures and the markets where we operate.

All Directors were advised of the time required to fulfil the role prior to appointment and confirmed they can make the necessary 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 during the year.

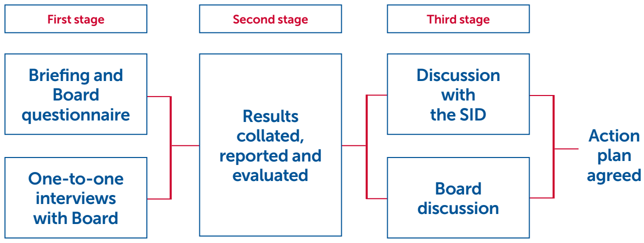
## Performance

Every year, the Board undertakes an evaluation of its performance and governance, as well as that of its Committees and individual Directors.

In accordance with the UK Corporate Governance Code, the Board conducted an externally facilitated evaluation in 2017. The last external evaluation was carried out in 2014.

A competitive tender was conducted for Board Evaluation Services, led by the Senior Independent Director, which selected Deloitte LLP to conduct the Board Evaluation in 2017. Deloitte LLP observed a number of strengths and identified some areas for improvement and the Board has agreed an action plan to address these areas during the course of 2018. Deloitte LLP provides certain Tax and Consulting services. The Board Evaluation was conducted by an independent team and the Board is satisfied that the advice received has been challenging, objective and independent.

External Board evaluation process

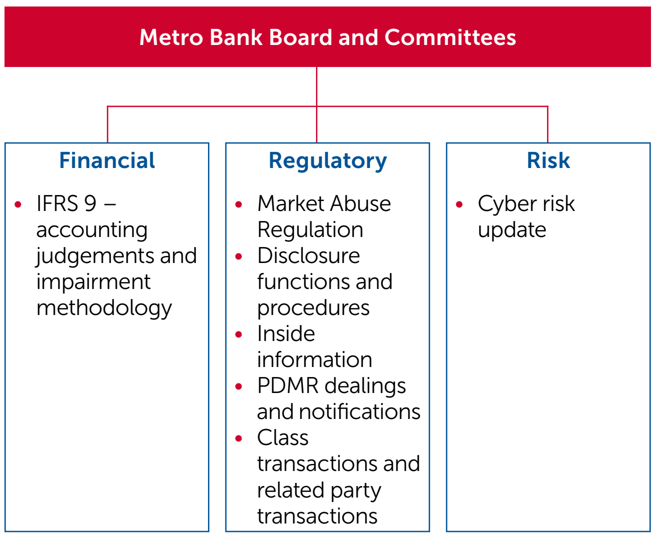



## Development

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

Executive Directors take part in our appraisal procedure. This sets tangible targets 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.




## 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.

Our approach to risk is further detailed on pages 30 to 37. 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 59 to 61.

## External appointments

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

During the year ended 31 December 2017, 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 the Audit Committee Report on page 56 and in note 26 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

We provide Directors and Officers with 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.

### Appointment and retirement of Directors

The Board may appoint Directors to the Board. Newly appointed Directors must stand for election by shareholders at the AGM following their appointment. In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the 2018 Annual General Meeting, with the exception of Mike Brierley, who is retiring from his role as Chief Financial Officer and Company Secretary in March 2018. The Board would like to thank Mike for his significant contribution to the Bank's growth over his career at Metro Bank. Monique Melis will stand for election, this being the first Annual General Meeting following her appointment in June 2017. Subject to Board approval, David Arden, the incoming Chief Financial Officer and Company Secretary, will also stand for election at the 2018 Annual General Meeting.

Under the Articles of Association, shareholders may remove a Director before the end of his term by passing an ordinary resolution at a general meeting.

### Relations with shareholders

The Board continues to place great importance on regular two-way engagement with 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 2017, the team participated in over 180 individual and group meetings in the US, UK and Europe, as well as presenting at various investor conferences. Institutional shareholders have the opportunity to meet with the Chairman and/or other Non-Executive Directors to discuss any areas of concern.

The Investor Relations function reports to the Board on a regular basis on matters including share price performance, changes in the shareholder register, analyst and investor feedback and significant market updates, with the assistance of the Bank's corporate brokers. 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 'Investor Relations' section of our website and stakeholders can subscribe to receive news updates by email by registering online on the website: 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

**Stuart Bernau**
**Chairman of the Audit Committee**

**Chit Ghee Yeoh**
**Director of Internal Audit**

## “Focused on building and delivering an audit plan that supports the Bank’s growth model”

### 2017 in brief

**Internal audit reports reviewed by the Committee**

**31**

**Percentage of the Bank’s financial reporting reviewed by the Committee**

**100%**

**Related Parties contract review**

**Oversight of IFRS 9 accounting judgements**

### Attendance of the Audit Committee

As at 31 December 2017, the Audit Committee comprised the following independent Non-Executive Directors:

| Members | Meetings attended 2017 |
|---|---|
| Stuart Bernau (Chairman) | ●●●●●●●● |
| Gene Lockhart | ●●●●●○○○ |
| Keith Carby | ●●●●●●●○ |
| Sir Michael Snyder | ●●●●●●●● |

● Attended ○ Unable to attend

### Letter from the Chairman

I am pleased to present the Audit Committee report for the year ended 31 December 2017.

In its first full year as a listed company, Metro Bank has continued to grow strongly as it follows its unique business model.

As such, the Audit Committee has focused on building and delivering an audit plan that works alongside the growth model and looks forwards as well as backwards to ensure it fulfils its assurance role and understands, assesses and monitors the risk facing the business.

It has been a busy year for the Audit Committee. The Committee has spent a significant amount of time reviewing and considering the progress of the Bank’s project to transition to IFRS 9 and the accounting judgements which underpin this. The Committee reviewed and recommended quarterly, half yearly and annual financial statements and shareholder announcements for approval by the Board.

It has also monitored the delivery of the 2017 Internal Audit Plan and the outcomes of the work performed and the reports issued, ensuring recommendations for improvement are actioned where appropriate. In developing the Internal Audit Plan for 2018, we have ensured inclusion of those areas which bear the greatest risk to the Bank, those which are most impacted by continued growth and areas of regulatory focus. We have also supported the continued expansion of the Internal Audit team to meet the increased workload and we are satisfied it has sufficient resource to fulfil its responsibilities.

The 2018 Internal Audit Plan was approved by the Board in January 2018 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.

The Committee has reviewed and considered the contracts for services with InterArch Inc, (‘InterArch’), a related party of the Bank to provide assurance to the Board, that the contracts for services continue to be at arm’s length and on terms which are at least as favourable as those which could be obtained in the market. This included a review carried out by an independent third party, the details of which can be found below.

During the year, the Financial Reporting Council's Audit Quality Review team reviewed PwC's audit of the Group's 2016 financial statements, as part of their annual inspection of audit firms. As Chair of the Audit Committee, I held an initial preparatory discussion with the review team, received a copy of the concluding letter issued in November 2017 by the FRC, and then discussed the results of the review with our audit partner at PwC. These were also considered by the Audit Committee. I am pleased to report that there were no significant findings arising.

The Bank's external auditor has been in situ since 2009. In line with regulatory requirements, the Bank will commence an external audit tender process in 2018 for completion by 2019. The Audit Committee will oversee this process and make a recommendation to the Board on the most suitable firm.

In October 2017, the Financial Reporting Council's Conduct Committee wrote to the Bank requesting further information on certain judgements and disclosures made in preparing our Annual Report and Accounts for the year ended 31 December 2016, given this was our first year of reporting as a listed company. The Bank and the Committee welcomed the feedback from the Financial Reporting Council, especially given the first year of reporting as a listed group and the publication of its accounts. The Bank provided responses in consultation with the Audit Committee and the external auditors. The Committee is satisfied that the enhancements proposed to, and agreed with, the FRC, have been appropriately incorporated in the 2017 Annual Report.

As part of my role as Chairman of the Audit Committee, 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 that Committee. I also meet monthly with the Chief Risk Officer to discuss issues in her Board report. I have regular meetings with the Chief Financial Officer and senior members of his team to discuss the financial statements and with the Deputy Company Secretary who acts as Secretary to the Committee. I have also informed management that I am available to meet with the Company's shareholders on request.

The Audit Committee met eight times in 2017 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. Before each Audit Committee meeting I also meet with the external audit partner and the Committee members have a session with the external auditors at the end of each meeting without the presence of management.

I attended regular seminars run by professional services firms on current key issues and, where appropriate, arranged for presentations to the Audit Committee and the Board. Looking forward to 2018, we expect this to be another busy and exciting year for Metro Bank. We will ensure that the Audit Committee keeps pace with the challenges presented by the successful implementation of Metro Bank's business model and provide the level of assurance required by the Board.

**Stuart Bernau**
Audit Committee Chairman
1 March 2018

## The Audit Committee in brief

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.

### External audit

- 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 the audit contract is tendered at least every ten years

### Internal audit

- 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 the Director of Internal Audit and ensure access to Board
- Review management's responsiveness to findings

### Financial and narrative reporting

- 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

### Whistleblowing and fraud

- Review the adequacy and security of whistleblowing arrangements
- Review the procedures for detecting fraud and preventing bribery

### Internal controls and risk management

- 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

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

## Composition of the Audit Committee

The four members of the Audit Committee are all independent Non-Executive Directors and bring a range of relevant business experience. For further details of their skills and experience, please refer to their biographies on pages 44 and 45. At least one of the members of the Committee has recent and relevant financial experience and the Committee as a whole has competence in the banking sector.

Regular attendees at the Audit Committee include the CEO, CFO, CRO, Director of Internal Audit, Group Finance Director, Financial Controller, Deputy Company Secretary and representatives from the external auditors, PwC.

# AUDIT COMMITTEE REPORT CONTINUED

### Key areas discussed at Audit Committee meetings since 1 January 2017

| Area | Key topics |
|---|---|
| Policy | • Share Dealing Policy<br>• Modern Slavery Policy<br>• Fraud Policy<br>• Review of Terms of Reference and recommendation to Board for approval |
| Financial reporting | • Review of Q1 results<br>• 2017 half-year results, including an update of critical accounting judgements and estimates<br>• Review of Q3 results<br>• 2017 full-year results, Annual Report and Accounts, including assessment of the key judgements and estimates, going concern and viability report<br>• Review of 2017 external auditors' reports and findings<br>• Tax strategy<br>• FRC Conduct Committee corporate reporting letter and Metro Bank response<br>• IFRS 9 Key Accounting Judgements |
| Internal Audit | • Review of internal audits carried out in 2017<br>• Review and approval of the Internal Audit Charter<br>• Finalisation of the 2016 independent external review of the Internal Audit function<br>• Review of the 2017 Internal Audit Reports<br>• Approval of the 2018 Internal Audit Plan and resourcing |
| External Audit | • 2016 external auditors' report and full-year findings<br>• 2017 External Audit Plan, engagement terms and fees<br>• Terms of engagement for the half-year review<br>• External auditors' half-year review findings<br>• External auditors' regulatory updates<br>• PwC Audit Quality Review findings and responses<br>• 2017 full-year external auditors' report and findings |
| Related party review | • Related party review<br>• InterArch Inc. presentation<br>• Independent review of InterArch Inc. architecture and design services and marketing contracts |
| Regulatory | • Regulatory and accounting update<br>• IFRS 9 implementation progress updates |

In addition to the key areas opposite, the Committee reviewed the progress against the Internal Audit Plan and reviewed the detailed reports where appropriate. At each meeting, we also receive an update on horizon scanning for future regulatory changes which may affect the Bank.

### Related parties

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

In order to ensure that the contracts for services with InterArch are materially 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 Committee has also considered the disclosures that the Bank has made regarding the relationship with InterArch to ensure they are appropriate and in line with relevant reporting standards.

In 2017, the Committee discussed the benchmarking reviews conducted by independent third parties and evaluated the Bank's response to the feedback and recommendations which were reported. The Committee also received a presentation from the InterArch team on the work undertaken by them over the term of the contracts. Following consideration of these reports, we continue to believe that contracts for services with InterArch are at arm's length and are at least as beneficial as those which could be obtained in the market from an alternative supplier, and that the quality and effectiveness of the service provided by InterArch to the Bank remains excellent. Following the review, the Executive Leadership Team are implementing improved controls in respect of continuous monitoring of the contracts.

A new contract for branding, marketing and advertising was signed in January 2018. The contract for architectural design services has recently been renegotiated and the Committee has taken steps to ensure that it continues to be at arm's length as part of the renegotiation process.

### Fair, balanced and understandable

In line with the Code, we considered whether the 2017 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 2017 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 supporting this goal included:

- The compilation of the 2017 Annual Report and Accounts was managed by the Chief Financial Officer together with a cross-functional team of senior managers
- Input is provided by a cross-functional team from Finance, Risk, People, Legal, Investor Relations and business lines
- A formal review is undertaken by the Audit Committee of the draft 2017 Annual Report and Accounts, along with a review of any issues raised in the external auditors' report, in advance of final sign-off
- 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 challenging governance, risk and control. The Audit Committee approved the Internal Audit Plan and considered the results of its work. We also:

- Approved the Internal Audit Charter, which sets out the role and expectations of Internal Audit
- Monitored the objectivity and competence of the Internal Audit function, and the adequacy of Internal Audit resources
- Monitored the delivery of the Internal Audit Plan

The Committee was satisfied that Internal Audit had adequate resources available this year.

### System of internal control and risk management

Details of the Bank's risk management framework are provided on pages 30 to 37. 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 was 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, with progress reported to the Audit Committee.

### External audit

The Audit Committee reviews and makes recommendations to the Board with regard to the appointment of external auditors, their remuneration and terms of engagement.

The Audit Committee is also responsible for the oversight of the relationship with PwC and the effectiveness of the audit process. To satisfy ourselves of the effectiveness of the external audit, during the year we:

- Carried out a review of the 2016 external audit process
- Reviewed the proposed Audit Plan in advance of the annual audit
- Reviewed and approved the audit engagement terms and proposed audit fee
- Reviewed the FRC's Audit Quality Inspection Report ('AQR') on PwC published in June 2017
- Reviewed the results of the AQR inspection as noted above;
- Considered the continued independence and objectivity of PwC
- Reviewed and discussed the reports provided by PwC

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

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

In accordance with the requirements of the Statutory Auditors and Third Country Auditors Regulations 2016, the Committee will carry out a tender process for the external audit in 2018, for completion by 2019. In conducting the tender process, the Committee will adhere to the FRC's guidance on audit retendering and the provisions of the UK Corporate Governance Code 2016.

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

### Non-audit services

The Bank and PwC have safeguards in place to protect the independence and objectivity of the external auditor.

The Bank has a policy for the provision of non-audit services by the external auditor. In line with the policy, all non-audit services provided to the Bank by the external auditor, where the fee is expected to exceed a de minimis limit, must be pre-approved by the Audit Committee subject to the guidelines and thresholds detailed in the policy. Pre-approval by the Committee must be obtained in advance of any work being carried out. Pre-approval must be performed by the Committee, it cannot be delegated to a member of management. The Committee must be provided with a detailed explanation of each particular service to be provided to allow them to make an appropriate assessment of the impact of the service on the external auditor's independence. The policy further formalises within the Bank the restriction on the provision of non-audit services by the external auditor which the FRC consider to be prohibited. In accordance with the FRC's Ethical Standard, the services considered prohibited include:

- Certain tax and valuation services, consultancy and advisory services
- Services that involve playing any part in the management or decision-making of the Bank
- The design and implementation of internal control or risk management procedures related to the preparation or control of financial information, or the design and implementation of financial information technology systems
- Services linked to the financing, capital structure and investment strategy of the Bank (except where assurance over financial information, such as in the form of comfort letters is required)
- Certain legal services
- Bookkeeping and preparing accounting records and financial statements
- Payroll services and certain human resources services
- Services related to the Bank's internal audit function

No significant engagements for non-audit services were carried out by the external auditor during the year. Details of the fees paid to the external auditor during the year can be found in note 7 on page 98.

# AUDIT COMMITTEE REPORT CONTINUED

## Significant financial reporting areas considered by the Audit Committee in 2017

In respect of financial reporting, the Audit Committee considered the key judgements and estimates in relation to the 2017 Annual Report and Accounts.

| Key judgements and estimates in financial reporting | Audit Committee review and conclusions |
|---|---|
| **Impairment of loans and advances**<br>Determining the appropriateness of loan loss provision is inherently judgemental and requires management to make a number of assumptions.<br><br>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 Committee received and challenged reports from management explaining the approach taken to provisioning and the resulting changes in the provision levels during the period.<br><br>The Committee considered key assumptions used in the collective model, being probability of default, the probability of this default resulting in possession and/or write-off, and the subsequent loss incurred.<br><br>The Committee is satisfied that the approach taken and judgements applied were reasonable.<br><br>The Committee also specifically considered the key accounting judgments and disclosures for the transition to IFRS 9 and is satisfied that they are reasonable. |
| **Deferred tax asset**<br>The Bank recognises a material deferred tax asset in respect of unutilised past operating losses. The recoverability of the deferred tax asset ('DTA') requires consideration of the expected future levels of taxable profit in the Group. | The Committee considered the recognition of the DTA, in particular the seven-year financial plan including the timing over which future taxable profits are expected to be available for the deferred tax asset to be realised.<br><br>The Committee noted that Metro Bank has generated a full year of profit in 2017 and, based on the business plans and evidence provided, agrees with the management judgement that sufficient taxable profits are expected to be available to utilise the tax losses carried forward in full and therefore the entire asset is considered to be recoverable. |
| **Income recognition**<br>The Bank recognises interest on customer loans using the effective interest rate method. Under this method, fees and interest should be spread over the expected life of each instrument to create an even interest rate.<br><br>The bank does not offer products with any interest-free teaser periods. Fees recognised within interest primarily include loan arrangement fees and upfront costs of new lending (for example, broker commissions and valuation fees).<br><br>Judgement is required to estimate the expected lives of our loan portfolios. | The Committee reviewed reporting which explained that the expected lives of financial instruments are reviewed at least annually. Lives are determined on a portfolio basis based on observed historic payment practices.<br><br>The Committee is satisfied that management has undertaken an appropriate review, and the judgements applied are reasonable. |

# RISK OVERSIGHT COMMITTEE REPORT

**Gene Lockhart**
Chairman of the Risk Oversight Committee

**Aileen Gillan**
Chief Risk Officer ('CRO')

## "The Bank continues to grow in a safe and sustainable manner"

### 2017 in brief

**Policies approved or recommended to the Board**

**18**

**Oversight of the IFRS 9 Expected Credit Loss models**

**12**

**Retail mortgage AIRB models reviewed as part of the Bank's AIRB application**

**7**

**Oversight of the ICAAP and ILAAP preparation**

### Attendance of the Risk Oversight Committee

As at 31 December 2017, the Risk Oversight Committee comprised the following independent Non-Executive Directors:

| Members | Meetings attended 2017 |
|---|---|
| Gene Lockhart (Chairman) | ●●●●●●●● |
| Stuart Bernau | ●●●●●●●● |
| Ben Gunn | ●●●●●●○○ |
| Sir Michael Snyder | ●●●●●○○○ |

● Attended ○ Unable to attend

### Letter from the Chairman

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 the Bank from its continuing business activities and future risk strategy.

2017 has been a busy and successful year for Metro Bank, which has continued to grow in a safe and sustainable manner. We entered our first full year of profitability, continued to surprise and delight our customers and create FANS, which led to growth in low-cost sticky deposits, and increased our lending book at low-risk. During the year, we acquired a c. £600 million buy-to-let mortgage portfolio, successfully completed a £278 million capital raise in July, prepared for the introduction of IFRS 9 and have been preparing for an advanced internal ratings based ('AIRB') approach to calculating credit risk capital requirements. Application to adopt the AIRB approach for residential mortgages has now been submitted.

There are many regulatory changes on the horizon, including ring-fenced banking legislation and the Minimum Requirement on Own Funds and Eligible Liabilities ('MREL'). The Committee reviews and provides an opinion on the Executive Leadership Team's plans to implement and apply these regulations.

During the year, we 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 ROC minutes are included in the next Board pack.

ROC members and other colleagues met the PRA on a number of occasions during the year, including a review of our treasury and liquidity management, which was received positively.

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 2017.

**Gene Lockhart**
Risk Oversight Committee Chairman
1 March 2018

# RISK OVERSIGHT COMMITTEE REPORT CONTINUED

## The Risk Oversight Committee in brief

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. We are charged with helping the Board to create an appropriate culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. We are responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, Individual Capital Adequacy Assessment Process ('ICAAP') document, Individual Liquidity Adequacy Assessment ('ILAAP') document and risk policies. We also provide oversight of the credit risk model programme. The ROC oversees risk management procedures and reviews risk reports on key business areas. In addition, we advise the Audit Committee on reviews of effectiveness of the Bank's risk controls, and 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. We receive regular updates on regulatory developments, and consider how these will affect plans, processes, systems and controls.

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

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

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

- CRO ROC Report

This includes an executive summary from the CRO setting out items of note and assessing the Bank's performance against its risk appetite and risk metrics. It also includes specific reports on the following areas:

- Credit risk

Execution of our strategy requires prudent and controlled management of credit risk. To support this, one of the roles of the ROC is 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. This ensures that lending remains within risk appetite and monitors policy exceptions.

- Operational risk

We receive reports concerning risk and control self-assessments, information security, business continuity management and incidents. While a number of incidents were raised during 2017, our view is that the management of these incidents and the actions taken in response was proportionate and appropriate to the size and scale of the incidents. We also note that post-incident reviews were held for material incidents to capture learnings and ways to prevent or mitigate any potential recurrences. We continued to focus on cyber risk during 2017, in response to the increased prevalence of attempted attacks against financial services firms and others.

- 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. We receive updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and voice of the customer. We are also updated on how the Bank manages expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line.

- Financial crime risk

Given the level of risk posed by financial crime to all banks, our report includes management information on matters including: performance against the Bank's financial crime key risk indicators; compliance with customer identification and verification requirements for all new accounts; oversight; and risk assessment and high risk customers. Our report also covers payments and customer screening, as well as 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 – and the Treasurer is invited to attend meetings to discuss this. The ROC also reviews Treasury policies and notes the minutes of ALCO. Our report includes high-level MI on liquidity and interest rate risk, while we also receive specific reports on Treasury risk. In addition, the Treasurer's report includes updates on relevant regulatory matters.

- Litigation update

We note the report from the Bank's Legal team regarding any material litigation cases.

- Deep dives and in-depth reviews

We receive in-depth reviews on areas of emerging risk and regulatory interest throughout the year. Topics covered during 2017 included information security, impairment methodology and IFRS 9, and the performance of acquired mortgage portfolios, including the portfolio acquired in June 2017.

## Composition of the Risk Oversight Committee

All four members held office throughout 2017. 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 colleagues attend as guests by invitation of the Chairman to present and report on relevant topics, with the Deputy Company Secretary acting as Secretary to the Committee.

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

## Key areas considered by the Risk Oversight Committee in 2017

During 2017, we received items of business including the following:

| Area | Topics |
|---|---|
| Policy | Policies approved by ROC:<br>• Commercial Lending Policy<br>• Arrears Management Policy<br>• Residential Mortgage Lending Policy<br>• Sanctions Policy<br>• Data Policy<br>• Business Continuity Policy<br>• Impairment Policy<br>• Market Risk Policy<br>• Retail Unsecured Finance Policy<br>• Private Banking Policy<br>• Diversity and Inclusion Policy<br>• Health and Safety Policy<br>Policies reviewed and recommended to the Board:<br>• Credit Risk Policy<br>• Responsible Lending Policy<br>• Compliance Policy<br>• Anti-Money Laundering/Counter Terrorism Financing Policy<br>• Treating Customers Fairly Policy<br>• Liquidity Policy |
| Regulatory | • IFRS 9 Implementation Programme<br>• Minimum Requirement on Own Funds and Eligible Liabilities ('MREL')<br>• Ring-Fenced Banking Legislation<br>• Bank of England Base Rate Change and Impacts Plan<br>• Money Laundering Reporting Officer ('MLRO') Annual Report |
| AIRB application | • Advanced Internal Ratings Based approach to calculating credit risk ('AIRB') application<br>• Credit Risk Model Framework<br>• Credit Risk Model Policy<br>• Credit Risk Model Design Principles<br>• Retail Mortgage IRB Models |
| Treasury Governance Project | • Risk Committee Terms of Reference reviewed and recommended to Board for approval<br>• ALCO Terms of Reference for noting<br>• Review and approval of Treasury Dealing Policy<br>• 2018 Investment Strategy for noting |
| Capital and Liquidity | • ILAAP document incorporating Treasury Policy and Contingency Funding Plan<br>• ICAAP document including Interest Rate Risk in the Banking book |
| Deep dives | • Deep dive on cyber crime and information security<br>• Deep dive on impairment methodology |

# NOMINATION COMMITTEE REPORT

**Lord Flight**
Chairman of the Nomination Committee

**Danielle Harmer**
Chief People Officer

## “The Nomination Committee is focused on identifying new talent for the Board”

### 2017 in brief

**Non-Executive Directors considered to be independent.**

**100%**

**Average tenure of Non-Executive Directors in years.**

**5.7**

**Non-Executive Director appointments during the year**

**1**

### Attendance at the Nomination Committee

As at 31 December 2017, the Nomination Committee comprised the following independent Non-Executive Directors and also the Chairman, Vernon W. Hill, II:

| Members | Meetings attended 2017 |
|---|---|
| Lord Flight (Chairman) | ●●●● |
| Vernon W. Hill, II | ●●●● |
| Keith Carby | ●●●● |
| Roger Farah | ●●●● |

● Attended ○ Unable to attend

### Letter from the Chairman

I am pleased to share my report of the Nomination Committee for 2017.

During the year, we focused on succession planning and met a number of Non-Executive Director candidates. As a result, we oversaw the appointment of a new Non-Executive Director, Monique Melis, and also a new Chief Financial Officer, David Arden.

Monique brings with her significant experience in financial services, regulation and compliance. She was introduced as a suitable candidate by one of the existing members of the Board. We followed a rigorous process for her appointment which included interviews with the Chairman and several Board members, alongside detailed referencing and due diligence. Following this, we made a recommendation for her appointment to the Board, and we are delighted to welcome her to the team.

David, a seasoned CFO, joins the Company in March 2018 when Mike Brierley retires. Mike is one of the two founding Metro Bank Executive Directors. We will be sorry to see him leave and wish him well for the future. The search firm Alderbrooke Group, itself a customer of Metro Bank, helped us identify and recruit our new CFO, and we are looking forward to David joining us.

We continue to identify Non-Executive Director candidates in our quest to progressively strengthen and refresh the Board.

### Board composition, independence and time commitments

We reviewed the skills, experience, independence and knowledge of the Board during 2017. This process helps us understand which areas we may want to focus on when recruiting future Board members, as well as the likely future composition of our Board.

The Committee is satisfied that all of the Non-Executive Directors remain independent and free of relationships and other circumstances that could affect their judgement and ability to offer robust challenge while providing the support that also forms part of their role.

The Board carried out an externally facilitated evaluation during 2017. More details on this can be found in the Corporate Governance Statement on page 52.

### Diversity

We understand the merits of a diverse organisation and Board – and one of our top priorities is to use diverse long lists in order to identify candidates for Board roles. We have retained the services of Audeliss, a search firm, to support us in sourcing candidates for Non-Executive Director roles in the future. Diversity is central to Audeliss's approach and we are delighted to be working with them. Audeliss has no connection to Metro Bank.

We do not have any specific targets in relation to Board diversity and any appointments are made on merit as we seek individuals who will add significant value. However, we are committed to building a strong Board which is diverse in many ways, including gender.

**Lord Flight**
Nomination Committee Chairman
1 March 2018

### The Nomination Committee in brief

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

- Regularly reviewing the structure, size and composition (including skills, knowledge, independence, 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 Company, and the skills and expertise needed on the Board in the future.
- Taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board.
- 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.
- Reviewing the results of the Board performance evaluation process relating to the Board composition.

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

### Composition of the Nomination Committee

In addition to the members set out on page 62 Craig Donaldson (CEO) attends meetings by invitation while the Chief People Officer, Danielle Harmer, acts as the Secretary to the Committee and provides support to the Committee Chairman and the Committee as needed.

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

### Key areas discussed at Nomination Committee in 2017

| Area | Discussion |
|---|---|
| Board composition and succession | • The composition and diversity of Board membership<br>• Board tenure and independence<br>• The appointment of a new Chief Financial Officer<br>• The appointment of a new Non-Executive Director<br>• The Board succession plan and the skills and experience of the Board as a group<br>• Review of proposed Non-Executive Director candidates<br>• 2017 Hampton-Alexander data/report |

# REMUNERATION COMMITTEE REPORT

**Lord Flight**
Chairman of the Remuneration Committee

**Danielle Harmer**
Chief People Officer

## Attendance at Remuneration Committee

As at 31 December 2017, the members of the Committee were all independent Non-Executive Directors:

| Members | Meetings attended 2017* |
|---|---|
| Lord Flight (Chairman) | ●●●●● |
| Keith Carby | ●●●●● |
| Roger Farah | ●●●●● |

● Attended ○ Unable to attend

* 2 meetings in February 2017

**“Our simple and consistent approach to remuneration for all colleagues aligns them to our unique customer-focused model and the growth and success of Metro Bank”**

### 2017 in brief

**Colleagues who think Metro Bank is a good place to work.**
**96%**

**Company multiplier for variable reward, see page 68.**
**92%**

**New roles created during the year.**
**596**

**Colleagues promoted.**
**644**

## Letter from the Chairman

On behalf of the Board, and as Chairman of the Remuneration Committee, I am pleased to present the Remuneration Committee Report and the Directors' Remuneration Report ('the Report') for the year ended 31 December 2017.

Our first shareholder-approved Directors' Remuneration Policy was approved at the Annual General Meeting ('AGM') in April 2017, and is intended to apply until April 2020. We have included a summary of the Policy within our Remuneration Report for ease of reference. Full details of the approved Policy can be found on our website.

We are committed to providing transparency on decision-making in respect of performance and reward outcomes. To that end, and acknowledging the feedback received on last year's Report, we have enhanced the level of disclosure this year.

## Our approach to remuneration across Metro Bank

We believe oversight of the remuneration and benefits across the Bank are an important part of our role. Specifically, this year we have advised the Company on the transfer of the Group Personal Pension Plan to a new provider, supported by the advisers Gallagher, as well as on the launch of ShareBuy – an all employee Share Incentive Plan ('SIP').

As a Committee, we also have oversight of both reward and how the Company is developing and improving its approach to remuneration and benefits for all employees.

Our approach to remuneration for Executive Directors is consistent with that for all employees. It comprises of a salary, reasonable benefits and pension provisions and variable reward which is delivered primarily through share options.

The variable reward element is based on personal behaviours and delivery and also achievement of Bank goals for the financial year. Any awards are subject to deferral over up to five years. All share options are awarded at the market share price with no discount. This aligns all colleagues with both investors and other stakeholders in line with our customer-focused growth model.

We do not operate additional Long-Term Incentive Plans ('LTIPs') as we take a simple approach which rewards all colleagues for creating FANS. We are committed to making everyone an owner, through the delivery of share options across the Company. This aligns colleagues, including our executive directors, with our long-term vision and the customer experience.

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

## Gender pay

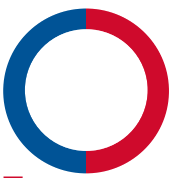
This year we have examined the Gender Pay Gap and data for the Company.

| Median pay gap | Mean pay gap | Median bonus gap | Mean bonus gap | Median bonus gap excluding share options sales/gains | Mean bonus gap excluding share options sales/gains |
|---|---|---|---|---|---|
| 13.5% | 22.4% | 24% | 38.7% | 23.5% | 27.1% |

The Bank has a Median Gender Pay Gap of 13.5% and a Mean Gender Pay Gap of 22.4% – and has carried out significant analysis to establish what is driving the gap and to understand what interventions might redress the imbalance. The bank has also examined the salaries for all roles across the bank with more than ten colleagues. This confirmed that there is no equal pay issue and that we pay colleagues doing the same roles equitably, regardless of gender.

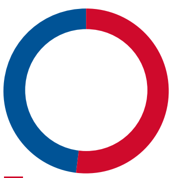
## Pay quartiles

LOWER



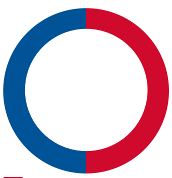
| | |
|---|---|
| Male | 50% |
| Female | 50% |
| Median pay gap | 1.1% |
| Mean pay gap | 0.1% |

LOWER MIDDLE



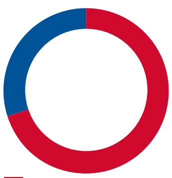
| | |
|---|---|
| Male | 52% |
| Female | 48% |
| Median pay gap | 0.0% |
| Mean pay gap | 0.2% |

UPPER MIDDLE



| | |
|---|---|
| Male | 50% |
| Female | 50% |
| Median pay gap | -0.5% |
| Mean pay gap | 0.2% |

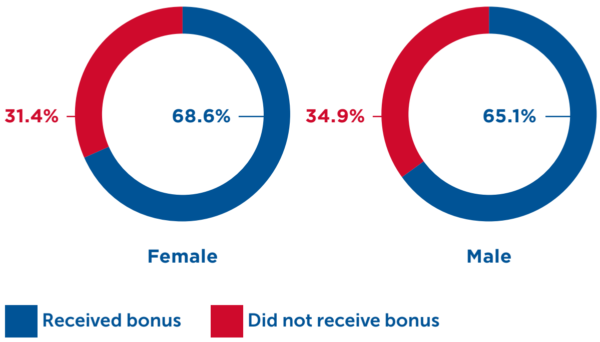
UPPER



| | |
|---|---|
| Male | 70% |
| Female | 30% |
| Median pay gap | 11.8% |
| Mean pay gap | 11.5% |

## Proportion of female and male colleagues by pay quartile

In 2017 68.6% of females received a bonus, versus 65.1% of males. The Mean Bonus Gap is 38.7% and the Median Bonus Gap is 24%. However, if gains made on the sale of share options or shares are excluded, the Mean Bonus Gap reduces to 27.1% and the Median to 23.5%.




As the primary cause of the Gender Pay Gap and Bonus Gap at Metro Bank is the under representation of women in senior roles, we are focused on encouraging and supporting talented women into leadership and specialist jobs.

Further details can be found on our website metrobankonline.co.uk

## Looking back on 2017

### Variable reward

Variable reward outcomes for 2017 were based on key financial, risk, customer, people and culture objectives balanced with the personal behaviours, contribution and delivery of individual Executive Directors. Again, this is the same approach that we take with all colleagues in Metro Bank and specifically the same company multiplier for all colleagues who are eligible for variable reward.

In light of strong performance in the year we are proposing total variable reward of 123% of salary, out of the maximum 200% allowed within our Remuneration Policy, for the CEO; and total variable reward of 108% of the same maximum for the CFO, in respect of the 2017 financial year. Page 68 details the scorecard measures, targets and outcomes relating to 2017 as well as the total variable reward to be awarded.

## Looking forward to 2018

### Salaries from 1 April 2018

We have a "standard" pay pot of 2.25% for inflationary and behaviour/performance-related salary increases across the Company. There is an additional pay pot for those roles which we deem are growing rapidly in scale, complexity and criticality and also for those colleagues which market data suggests are below the lower end of a market-competitive pay range. The proposed range of increases for these colleagues in 2018 is 2.5% to 30.18%.

We are very mindful of the current mood and sentiment surrounding executive pay. However, we do not believe it appropriate for executive salaries to remain static when the Bank, and therefore our Executive Director roles, are also growing at a significant rate, bringing additional responsibility and complexity.

# REMUNERATION COMMITTEE REPORT CONTINUED

Craig Donaldson, CEO, did not receive a salary increase in 2017. We carried out a review of Craig's remuneration arrangements, taking into consideration his performance in the role since our listing in March 2016 and the increase in the scale of our operations during that time. The outcome of the review was that we considered it appropriate to increase Craig's salary by 15% from £650,000 to £750,000 p.a. from 1 April 2018. We intend to keep Executive Director salaries under review, following the increase in April 2018.

The proposed salary increase for Craig Donaldson compares with the typical rate of increase to be awarded to employees across the Company in our key growth roles. For growth and market data realignment increases, the average pay rise is 5.75% and the maximum is 30.18%. 1,786, or 56% of colleagues, are due to receive a salary increase above the standard inflationary and behaviour/performance related pay rises.

Mike Brierley, CFO, is retiring in March 2018 and his salary remains unchanged at £375,000. We are awarding him variable remuneration for the 2017 performance year. We have agreed, in line with our Directors' Remuneration Policy, that Mike's share options will continue on the same terms and vest at the normal time. Mike will not receive any variable remuneration for the portion of 2018 during which he remains in role.

Our new CFO, David Arden, joins in March 2018 and his salary will be £400,000 p.a. All other elements of remuneration will be in line with those currently offered to other Executive Directors, in accordance with the Remuneration Policy approved by shareholders.

### Chairman's fees

The annual fees for the Chairman, Vernon W. Hill, II, will remain unchanged at £385,000. The £120,000 gross annual allowance, paid in monthly instalments via PAYE as a contribution towards the Chairman's travel to/from the UK and accommodation and subsistence while here, will also remain unchanged.

### Non-Executive Director ('NED') fees

The basic annual fee paid to all NEDs will increase from £45,000 to £52,500 from 1 April 2018, again reflecting the increasing scope and scale of their roles in a growing organisation. The basic fee for NEDs was last increased in April 2016.

### Variable reward for 2018

The Committee will again agree appropriate and demanding annual variable reward targets for the year ended 31 December 2018, based on financial, risk, customer, people and culture objectives. We will disclose targets and measures in the Remuneration section of the Annual Report for 2018. This disclosure will include information relating to performance against those targets except where we believe it is commercially sensitive – in which case it will be disclosed once it is deemed not to be sensitive.

The majority of variable pay for Executive Directors will continue to be awarded as share options deferred over up to five years.

We believe that this approach to variable reward focuses Executive Leaders on growth and the long-term and sustainable success of the business. All employees remain eligible to be included in our share schemes as part of our ethos to give colleagues meaningful equity ownership.

## Appropriateness of executive remuneration

We believe that the overall remuneration structure continues to be appropriate. There is significant alignment between the interests of Executive Directors and shareholders, and we take the same approach with all employees as part of our ethos to make every colleague feel like an owner.

We will of course keep the Remuneration Policy under review to ensure that our structures remain effective, competitive and aligned with the Company's objectives. At the same time, we will remain mindful of the external and regulatory environment and evolving debate on executive remuneration. Any changes to the Policy will be subject to shareholder approval.

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

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

**Lord Flight**
**Remuneration Committee Chairman**
1 March 2018

### The Remuneration Committee in brief

Our primary objective is to design a remuneration framework that promotes the growth and long-term success of Metro Bank and which supports the unique culture and values to deliver outstanding customer service.

This framework promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of risk tolerated and agreed by the Board.

In line with our business strategy and objectives, the framework strongly emphasises long-term growth and share options as the major source of reward – so that everyone is focused and rewarded for long-term, sustainable success.

Because of the way we measure behaviours and performance for individuals – and how we capture and act upon customer insight across the organisation – the framework is also actively aligned to the delivery of outstanding customer service.

In addition, our approach rewards success and is attractive to talented individuals. In particular, it strikes a balance between short-term rewards while also recognising the long-term performance of the business. The framework also complies with the FCA remuneration principles. Full details can be found on our website: metrobankonline.co.uk.

### Composition of the Remuneration Committee

In addition to the members set out on page 64 Craig Donaldson (CEO) and Vernon W. Hill, II (Chairman) attend meetings by invitation and assist the Committee in its deliberations – although not in relation to their own remuneration. 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 provides a verbal update to the Board. The Committee minutes are also included in future Board papers. Areas of discussion are outlined below.

### Key areas discussed at Remuneration Committee in 2017

| Area | Topics |
|---|---|
| Policy | • Approval of Directors' Remuneration Report, including letter from Remuneration Committee Chairman and Remuneration Policy<br>• Approach to reporting 2017 Gender Pay data<br>• Process for sign off of remuneration for Director of Audit |
| Remuneration | • Salaries for Executive Directors and members of the Executive Leadership Team<br>• Fees for Chairman and Non-Executive Directors |
| Reward regulation | • Regulation guidelines on remuneration and proportionality<br>• Remuneration Code Annual Disclosure for 2017<br>• Ex-post checks for October and November 2017 share option vests |
| Awards | • 2017 pay and variable reward quantum and multipliers<br>• Share options – number available for granting, dilution policy, approval of exchange value and VWAP to apply to the 2017 grant<br>• 2017 Annual Reward Review – outcomes (for 2016 performance year) and CEO summary<br>• CRO sign off of 2017 Reward Review |
| Pension | • Pension provider decision and update on transfer |
| Other | • Proxy Advisor feedback on 2016 Annual Report<br>• Discretionary decisions regarding vesting of share options for "good" leavers/death in service colleague |

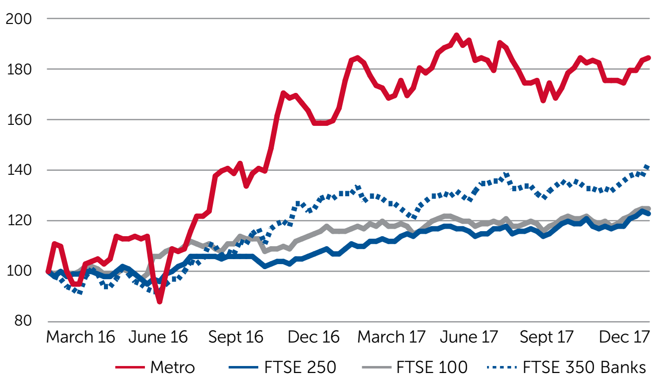
# REMUNERATION COMMITTEE REPORT CONTINUED

## Remuneration at a glance

### Key strategic highlights during 2017

- Customer accounts increased from 915,000 to 1,217,000
- Deposits increased from £8.0 billion to £11.7 billion
- Underlying profit before tax increased from a loss of £11.7 million to a profit of £20.8 million
- Statutory profit before tax increased from a loss of £17.2 million to a profit of £18.7 million

### Total shareholder return



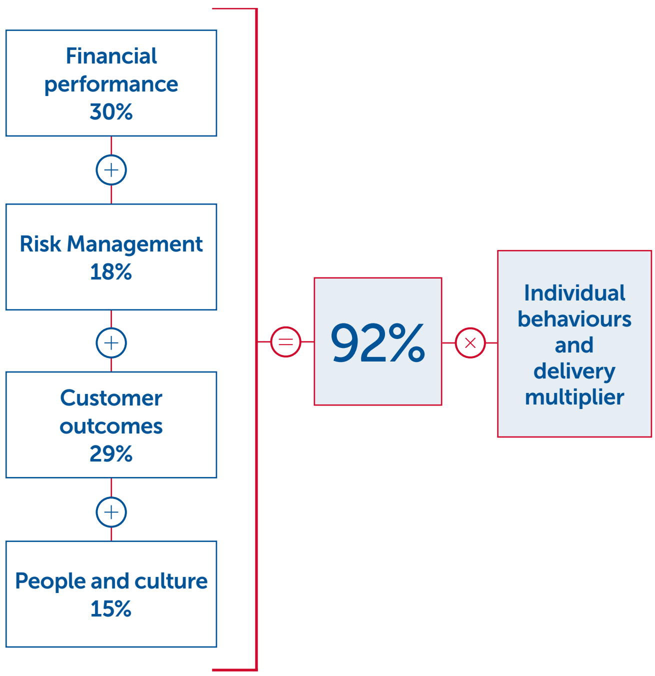

### Balanced scorecard remuneration outcome or Company performance multiplier

| | Weighting | Weighted performance |
|---|---|---|
| Financial – see detail below (1) | 30% | 30% |
| Risk | 20% | 18% |
| Customer | 35% | 29% |
| People and culture | 15% | 15% |
| **Total** | 100% | 92% |

### (1) Financial measures used for variable reward

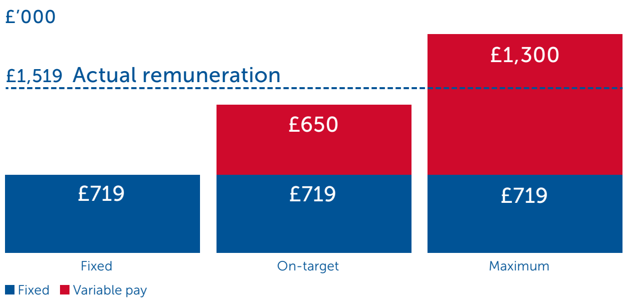
| Financial performance measure | % of target achieved |
|---|---|
| Deposit performance | 104% |
| Lending performance | 102% |
| Capital adequacy (capped at 100%) | 100% |
| Customer accounts | 100% |
| Profitability | 95% |

### How variable reward is calculated across the Bank for all colleagues including the Executive Directors

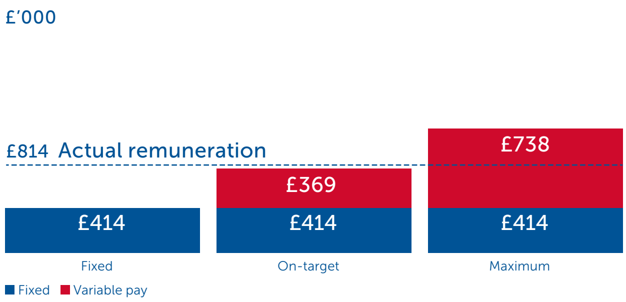



### 2017 remuneration outcomes for our Executive Directors

Craig Donaldson – CEO




Mike Brierley – CFO




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 69. 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.

## Directors' Remuneration Policy in brief

The table below sets out the key features of our Remuneration Policy, and how the Policy will be implemented in 2018. The Policy was approved by shareholders at our 2017 Annual General Meeting. Full details of the approved Policy can be found on the Company website.

| Key elements of remuneration | Key features of the Policy | Implementation for 2018 |
|---|---|---|
| **Salary** | • Reviewed annually and increases will normally be in line with increases awarded to other colleagues.<br>• There may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, where the size and scope of a particular role is increasing as the organisation grows. | • Craig Donaldson CEO: £750,000<br>• Mike Brierley CFO: £375,000 (until March 2018)<br>• David Arden CFO: £400,000 (from March 2018) |
| **Benefits** | • Core benefits include:<br>– Life Assurance of 4x salary;<br>– Private Medical Insurance for the Executive Director, their partner and children.<br>• Additional benefits may be provided in certain circumstances such as on relocation.<br>• Income Protection is in place for the two current Executive Directors as a legacy scheme.<br>• Executive Directors will be eligible to participate in any all-employee Share Incentive Plan ('SIP'). | • Benefits will be provided in line with the approved policy. |
| **Pension** | • 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.<br>• The maximum employer contribution (including cash in lieu) is 10% of salary. | Company contributions;<br>• Craig Donaldson: 10% of salary<br>• Mike Brierley: 10% of salary (until March 2018)<br>• David Arden: 10% of salary (from March 2018) |
| **Variable remuneration** | • Discretionary variable reward scheme in which all eligible colleagues participate, based on behaviours and performance over the year, paid in the form of cash and share awards for all colleagues.<br>• For Executive Directors at least 50% 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.<br>• 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 the time of award.<br>• 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.<br>• Malus and clawback apply to all deferred variable remuneration. | • The total variable reward opportunity, expressed as a percentage of salary, will be 100% for on-target performance, and 200% at maximum performance.<br>• The weightings of the performance measures that will make up the balanced scorecard for 2018 will be as follows:<br>– Financial 30%<br>– Risk 20%<br>– Customer 35%<br>– People and culture 15%<br>• Mike Brierley is retiring in March 2018 and will be awarded variable remuneration in line with our policy which will vest over five years. |

# REMUNERATION COMMITTEE REPORT CONTINUED

| Key elements of remuneration | Key features of the Policy | Implementation for 2018 |
|---|---|---|
| Non-Executive Directors | • All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member.<br>• Additional fees are paid for added responsibilities such as chairmanship and membership of Committees, or acting as the Senior Independent Director.<br>• The basic and additional fees are reviewed periodically, drawing on external market information for comparable financial services groups and companies.<br>• The Chairman receives a monthly allowance, in addition to fees, as a contribution towards travel to and from the US and towards living expenses while he is in the UK. This is currently £10,000 per month before any deductions. | • Our NEDs will be paid in line with the approved policy<br>• The basic annual fee paid to all NEDs will increase from £45,000 to £52,500, from 1 April 2018<br>• The annual fees for the Chairman will remain unchanged at £385,000 |

# ANNUAL REPORT ON REMUNERATION

This section sets out how the Remuneration Policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2017, and how it will be implemented in 2018. This section will, together with the annual statement by the Chairman of the Remuneration Committee, be put to shareholders as an advisory vote at the 2018 AGM to be held on 24 April 2018.

### Single total figure of remuneration – Executive Directors (audited)

*Annual remuneration (£)*

The following sets out the remuneration for all the Executive Directors who served during 2017.

| | Craig Donaldson | | Mike Brierley | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Salary | **£650,000** | £571,250 | **£368,750** | £297,500 |
| Taxable benefits* | **£1,067** | £1,072 | **£1,067** | £8,709 |
| Variable pay, including deferred element† | **£800,000** | £672,750 | **£400,000** | £315,000 |
| Pension benefits§ | **£65,000** | £57,125 | **£36,875** | £29,750 |
| Other*1 | **£2,826** | £2,722 | **£7,214** | £5,226 |
| **Total remuneration** | **£1,518,893** | £1,304,919 | **£813,906** | £656,185 |

Notes:

* Taxable benefits include Private Medical Insurance for the CEO and CFO.

† 75% of the total variable pay awarded is converted into share options – see page 73. Any share options awarded are included in this figure, they are not in addition to it.

§ 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.

*1 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.

### Details of the single figure

*Salary*

| | Salary as at 1 January 2017 | Salary as at 1 April 2017 | Total salary paid in 2017 |
|---|---|---|---|
| Craig Donaldson | 650,000 | 650,000 | **650,000** |
| Mike Brierley | 350,000 | 375,000 | **368,750** |

# ANNUAL REPORT ON REMUNERATION CONTINUED

### 2017 variable reward outcomes

Amounts shown reflect the total awards under the variable reward scheme to be paid in 2018, based on performance in the financial year ending 31 December 2017, including the value of any deferred element.

As set out in the Remuneration policy approved by shareholders at the 2017 AGM, the Executive Directors' variable rewards in relation to performance during 2017 were based on a balanced scorecard of performance measures and objectives, weighted for both Executive Directors between Financial, (30%), Risk (20%), Customer (35%) and People and culture (15%).

In addition, a multiplier based on individual behaviours and performance is also applied to the balanced scorecard remuneration outcome. The tables below illustrate performance against each of the balanced scorecard measures.

As set out on page 68, this approach and multiplier are consistent with that applied for all colleagues across the Bank.

### Financial performance

| Performance measure | Performance vs target | Weighting | Weighted performance** |
|---|---|---|---|
| Deposit performance | 104% | 5% | 5% |
| Lending performance | 102% | 5% | 5% |
| Capital adequacy* | 100% | 5% | 5% |
| Customer accounts | 100% | 5% | 5% |
| Profitability | 95% | 10% | 9% |
| **Total for financial measures** | | 30% | 30% |

* Capital Adequacy capped at 100%.
** Rounded to nearest 1%

### Non-financial Company objectives

| | Objectives | Key achievements in 2017 | 2017 Weighting | 2017 Weighted performance |
|---|---|---|---|---|
| **Risk** | Key measures relating to Internal Audit, credit quality – arrears* and AML | Credit quality is exceptional at 185% of target and has been capped at 100%. We have had a strong year on audit with the majority of our audits having very minor or no issues. Our anti-money laundering controls have operated effectively. | 20% | 18% |
| **Customer** | Key measures relating to call centre service, customer complaints, magic shopping and Net Promoter Score | With our customer focused model, we set demanding goals in this area. Our Net Promoter score for new accounts was over 80% for 2017. The Company Mystery Shopping programme has measured customer satisfaction at 84% and we responded to 94% of complaints within target timescales. | 35% | 29% |
| **People and culture** | Key measures relating to voluntary attrition**, compliance training and being a "good place to work" | In our annual colleague survey 96% of people agreed that Metro Bank is a good place to work. Voluntary attrition has improved during the year and we consistently see our people doing their regulatory training on time. | 15% | 15% |

* Credit quality for arrears was capped at 100%
** Voluntary attrition was capped at 100%

### Overall Balanced Scorecard remuneration outcome or Company performance multiplier

| | Weighting | Weighted performance |
|---|---|---|
| Financial | 30% | 30% |
| Risk | 20% | 18% |
| Customer | 35% | 29% |
| People and culture | 15% | 15% |
| **Total** | 100% | 92% |

Based on the assessment of performance against the balanced scorecard outcomes outlined above, we are applying a Company performance weighting of 92% for 2017. This weighting will be applied for all eligible colleagues across the Bank, not only the Executive Directors.

# ANNUAL REPORT ON REMUNERATION CONTINUED

### Individual behaviours and performance multiplier

A discretionary multiplier of between 100% and 200% is applied to variable reward for all eligible colleagues, by reference to each colleague's individual behaviours and performance for the year. Below, we set out details of the individual multipliers in respect of our Executive Directors for 2017.

| Executive Director | Key achievements in 2017 | Individual behaviours and performance multiplier |
|---|---|---|
| Craig Donaldson | Craig has led the Company into its first full year of profitability with another successful year of exceptional growth and delivery.<br><br>The Company has continued to invest in its physical, people and digital capabilities and in 2017 opened a further 7 stores, created a further 600 jobs and launched a new mobile app, ensuring customers receive further choice about how, when and where they want to bank with Metro Bank.<br><br>He was recognised as the most People Focused CEO by HR Magazine, as the International Retail Banker of the Year by Retail Banker International and also as one of the highest rated CEOs on Glassdoor, evidencing the fantastic leadership he provides to colleagues and the Company. | 134% |
| Mike Brierley | The Company continues to deliver against its financial targets, under Mike's leadership, while remaining within risk appetite.<br><br>Metro Bank has achieved profitability during another year of exceptional investment in growth and customer experience.<br><br>Capital, costs and revenue are well managed to deliver short, medium and long term goals. Asset and liability management remain conservative.<br><br>The financial control environment remains strong as attested by both internal and external review. In addition the Finance, Treasury, Legal and Company Secretarial, Procurement and Investor Relations teams that Mike is accountable for deliver high levels of service to their internal customers and external stakeholders. | 118% |

### Calculation of variable pay for the Executive Directors

As set out in the 2016 Directors' Remuneration Report, each Director was eligible for an on-target variable reward opportunity of 100% of salary in respect of the financial year ending 31 December 2017.

In line with the above and our approach for all colleagues, the proposed variable rewards for the Executive Directors have been calculated as follows.

| Executive Director | "On-target" variable reward | Company performance multiplier | Individual behaviours and performance multiplier | Total variable reward |
|---|---|---|---|---|
| Craig Donaldson | £650,000 | X 92% | X 134% | = £800,000 |
| Mike Brierley | £368,750* | X 92% | X 118% | = £400,000 |

* Total salary for the year

### How variable reward is paid

In line with the Policy approved by shareholders at the 2017 AGM, at least 50% of all variable reward must be deferred into long-term share awards, and a further 25% is deferred into one-year vesting share awards. The remaining 25% is paid in cash.

Share awards in respect of the year ending 31 December 2017 will be deferred into market price share options, the fair value of which will be informed by the Black-Scholes methodology.

Market price share options are implicitly performance related, and put at risk the deferred element of variable reward that would otherwise be delivered in cash, as they will not accrue any value unless Metro Bank's share price increases over the deferral period. Our approach to deferring into market price share options is operated for all colleagues – it supports our reward principle to make everyone an owner, and aligns all colleagues with the Bank's long-term vision.

| Executive Director | Total 2017 variable reward | Element of variable reward | Quantum | Method of delivery[*†§] |
|---|---|---|---|---|
| Craig Donaldson | £800,000 | Cash (25%) | £200,000 | Paid immediately in cash. In line with the approved policy, this cash can be converted into immediate vesting share options at market price via the Company Bonus Exchange scheme at a current proposed exchange price of £10, i.e. 20,000 share options. |
| | | One-year share awards (25%) | £200,000 | 20,000 one-year options vesting fully on the first anniversary of grant |
| | | Long-term share awards (50%) | £400,000 | 40,000 five-year options with the first vest on the anniversary of grant and in equal annual instalments thereafter |
| Mike Brierley | £400,000 | Cash (25%) | £100,000 | Paid immediately in cash. In line with the approved policy, this cash can be converted into immediate vesting share options at market price via the Company Bonus Exchange scheme at a current proposed exchange price of £10, i.e. 10,000 share options. |
| | | One-year share awards (25%) | £100,000 | 10,000 one-year options vesting fully on the first anniversary of grant |
| | | Long-term share awards (50%) | £200,000 | 20,000 five-year options with the first vest on the anniversary of grant and in equal annual instalments thereafter |

Notes: All share option awards rounded to nearest option and all cash rounded to nearest £5.

† Any share options awarded will be granted at an option price based on the Volume Weighted Average Share Price (VWAP) for MTRO for 28 March 2018.

## Non-Executive Directors' remuneration

### *Chairman's fees*

The fees for the Chairman will remain unchanged at £385,000.

### *Non-Executive Directors' ('NED') fees*

The NEDs 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.

Fees are reviewed annually. The fees are benchmarked against financial services and other FTSE 250 companies.

The basic fee for NEDs will increase from £45,000 for £52,500 from 1 April 2018, to reflect the increasing scope and scale of their roles in a growing organisation. The basic fee for NEDs was last increased in April 2016. The revised fees are shown below:

| Role | Annual fee (£'000) |
|---|---|
| Non-Executive Director – basic fee | 52.5 |
| Senior Independent Director | 30.0 |
| Chairman of Audit, Risk or Remuneration Committee | 20.0 |
| Chairman of Nomination Committee | 10.0 |
| Member of Audit , Risk or Remuneration Committee | 10.0 |
| Member of Nomination Committee | 5.0 |

# ANNUAL REPORT ON REMUNERATION CONTINUED

The table below shows the actual fees paid to our Chairman and Non-Executive Directors in 2017 and 2016*

| | Vernon W. Hill, II | | Stuart Bernau | | Keith Carby | | Roger Farah | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Fees | **£376,667** | £285,000 | **£85,000** | £77,500 | **£68,750** | £60,000 | **£58,750** | £50,625 |
| Taxable benefits† | **£120,000** | £120,000 | **£0** | £0 | **£0** | £0 | **£0** | £0 |
| **Total** | **£496,667** | £405,000 | **£85,000** | £77,500 | **£68,750** | £60,000 | **£58,750** | £50,625 |

| | Howard Flight | | Alastair (Ben) Gunn | | Gene Lockhart | | Sir Michael Snyder | | Monique Melis§ |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Fees | **£78,750** | £70,000 | **£85,000** | £77,500 | **£85,000** | £77,500 | **£65,000** | £58,125 | **£22,500** |
| Taxable benefits† | **£0** | £0 | **£0** | £0 | **£0** | £0 | **£0** | £0 | **£0** |
| **Total** | **£78,750** | £70,000 | **£85,000** | £77,500 | **£85,000** | £77,500 | **£65,000** | £58,125 | **£22,500** |

Notes:
* These figures include all fees paid to the Senior Independent Director and to Non-Executive Directors for Board Committee memberships and Committee chairmanships.
† 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 while here. He does not claim any expenses in relation to this.
§ Appointed 21 June 2017

## Remuneration for employees below Board level

Our approach to remuneration is consistent for all colleagues including our Executive Directors. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business, focusing on long-term growth and discouraging unnecessary risk-taking.

Our Directors' Remuneration Policy, as approved by shareholders at the 2017 AGM, was developed by reference to our reward principles, which apply to all colleagues:

- 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 culture and 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.

## Summary of the remuneration structure for employees below Board level

| Salary | Benefits | Pension | Variable remuneration |
|---|---|---|---|
| • We have a "normal" inflationary and performance related pay pot of 2.25%.<br>• The quantum of salary increases are primarily driven by individual behaviours and performance.<br>• There is an additional pay pot for those roles which we deem are growing rapidly in scale and/or complexity and are critical to the business; and for those colleagues which market data suggests are falling behind the market rates for their roles below the lower end of the market-competitive pay range when compared to other companies of a similar size and complexity. | • All colleagues are eligible for Private Medical Insurance funded at different rates of cover depending on their level of seniority.<br>• 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.<br>• The two current Executive Directors receive cover for income protection. This is a legacy scheme and is not offered to any other employees apart from one member of the Executive Leadership Team. It would not be provided to any new Executive Directors including David Arden. | • The table below shows the minimum and maximum employer pension contributions payable by Metro Bank year-on-year.<br>• Pension contributions for all roles below the Executive Leadership Team were increased for 2017, but remained unchanged for more senior colleagues. | • Our approach to variable reward for our Executive Directors is consistent with that which applies across the Bank.<br>• All employees are eligible for share options or an equivalent, in line with our strong ethos of employee buy-in and ownership.<br>• A discretionary multiplier of between 100% and 200% is applied to variable reward for all colleagues whose behaviours and delivery are as expected or better.<br>• During 2017 we also launched ShareBuy – an all employee Share Incentive Plan ('SIP'). |

*Pension contributions*

| Employer contribution as a % of salary | 2017 | | 2016 | | % change | |
|---|---|---|---|---|---|---|
| | 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 | 8% | 10% | 7% | 10% | 14% | 0% |
| Managers and specialists | 7% | 8% | 6% | 8% | 17% | 0% |
| Entry-level roles | 6% | 6% | 5% | 6% | 20% | 0% |

## CEO reward vs employee reward

The table below sets out the percentage change between the 2016 and 2017 years in salary and variable reward.

*% change 2016/17**

| Employee group | Median | | Average | |
|---|---|---|---|---|
| | FTE salary | Variable reward | FTE salary | Variable reward |
| All employees† | 12.6% | 28.4% | 8.1% | 20.9% |
| CEO | 0% | 18.9% | 0% | 18.9% |
| Executive Directors | 2.5% | 21.5% | 2.5% | 21.5% |
| Executive Leadership Team | 2.4% | 50.1% | 4.8% | 43.5% |

Notes:

† **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 2016 and still employed on or after 31 December 2017. Any colleagues who joined or left the Bank within this period have been excluded from the analysis. Salary is taken as at 31 December 2016 and 31 December 2017.

## The ratio of CEO salary versus the average salary for all employees at 31 December 2017 was 17.98 (2016: 18.81*)

* In the 2016 Annual Report this was reported as 15.63 as it was calculated on a 'same store basis' ie only colleagues who were employed by Metro Bank on or before 1 January 2015 and still employed on or after 31 December 2016. The 2017 ratio and restated 2016 ratio are simply the salary for the CEO versus the average for all employees employed at 31 December in each year.

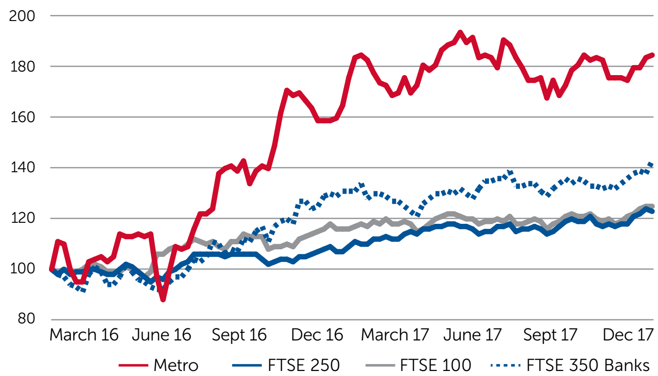
## Relative importance of spend on pay

We made no distributions by way of dividend or share buy-back during the relevant year, or made any other significant distributions. We therefore consider 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 our 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 our 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.




## CEO historic remuneration

| | Craig Donaldson | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
| Total remuneration (including Listing awards) | **£1,518,893** | £1,304,919 | £2,661,474 | £749,443 | £1,294,100 | £543,947 |

## Payments to past Directors

There were no payments made to past Directors in 2017.

## Payments for loss of office

There were no payments for loss of office made to Directors in 2017.

# ANNUAL REPORT ON REMUNERATION CONTINUED

### Dilution limits

The rules of the Metro Bank PLC Deferred Variable Reward Plan contain 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.

### Statement of voting at the Annual General Meeting

We will be proposing a resolution to shareholders in respect of the Annual Report on Remuneration at the Annual General Meeting to be held on 24 April 2018.

The table below shows the voting outcomes on the Directors' Remuneration Policy and annual report on remuneration at the last AGM in 2017.

| Item | For % | For No | Against % | Against No | Votes withheld |
|---|---|---|---|---|---|
| Remuneration policy | 95.43 | 41,582,506 | 4.57 | 1,989,312 | 343,211 |
| 2016 remuneration report | 94.93 | 41,611,644 | 5.07 | 2,222,119 | 81,226 |

### Shareholding

These are the total shareholdings as at 31 December 2017 for each of the Non-Executive Directors and Executive Directors and any related connected persons. Outstanding share awards, including share options, are summarised on pages 77 and 78.

There was no movement in any share interests between the end of the year and 21 February 2018.

| Director | Number of shares | Percentage of issued share capital |
|---|---|---|
| Vernon W. Hill, II | 4,804,231 | 5.44% |
| Craig Donaldson* | 223,342 | 0.25% |
| Michael Brierley† | 91,165 | 0.10% |
| Stuart Bernau | 53,654 | 0.06% |
| Keith Carby | 38,320 | 0.04% |
| Roger Farah | 650,523 | 0.74% |
| Lord Flight | 27,716 | 0.04% |
| Alastair (Ben) Gunn | 49,864 | 0.06% |
| Gene Lockhart | 40,689 | 0.04% |
| Monique Melis | 700 | 0.00% |
| Sir Michael Snyder | 12,500 | 0.01% |
| **Total** | **5,992,704** | **6.78%** |

This table includes vested shares where the director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years

* 35,495 of Craig Donaldson's shares which were awarded in connection with the Listing have not yet vested and are conditional in line with the rules of the long term deferred variable reward plan.

† 20,516 of Mike Brierley's shares which were awarded in connection with the Listing have not yet vested and are conditional in line with the rules of the long term deferred variable reward plan.

### Directors' shareholdings

*Shareholding Guidelines*

Executive Directors are required to build up a holding of shares equivalent to 100% of their annual salary. We will allow any new Executive Director a reasonable amount of time to build up their shareholding. This requirement will be included in our Remuneration Policy when it is next reviewed.

*Outstanding Share Awards (audited)*

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 2017:
- 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 77 and 78 shows, for each Non-Executive Director, as at 31 December 2017:
- 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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 15,000 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 6,000 | 0 |
| CSOP2014 | 60,000 | 31/10/14 | £13.50 | 31/10/15 | 31/10/19 | 36,000 | 0 |
| CSOP2013 | 5,000 | 11/11/13 | £12.00 | 11/11/16 | 11/11/18 | 3,000 | 0 |
| CSOP2012 | 2,000 | 31/10/12 | £10.00 | 31/10/13 | 31/10/15 | 2,000 | 0 |
| CSOP2011 | 4,000 | 07/10/11 | £9.00 | 07/10/12 | 07/10/14 | 4,000 | 0 |
| **Total** | **86,000** | | | | | **51,000** | **0** |

*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 |
|---|---|---|---|---|---|---|---|---|---|
| CSOP2017 | 33,637 | | 31/03/17 | 30/04/18 | 30/04/22 | £32.73 | 0 | | |
| CSOP2017 Deferred Cash1 yr | 16,819 | | 31/03/17 | 30/04/18 | 30/04/18 | £32.73 | 0 | | |
| CSOP2017 Bonus Exchange | 16,819 | | 31/03/17 | 31/03/17 | 31/03/17 | £32.73 | 16,819 | | |
| CSOP2016 Pension Exchange | 4,541 | | 04/03/16 | 21/03/16 | 21/03/16 | £20.00 | 4,541 | | 0 |
| CSOP2015 | 30,000 | | 04/11/15 | 31/10/16 | 31/10/20 | £16.00 | 12,000 | | 0 |
| CSOP2015 Bonus Exchange | 20,000 | | 20/03/15 | 20/03/15 | 20/03/15 | £14.00 | 20,000 | | 0 |
| CSOP2014 | 130,000 | | 31/10/14 | 31/10/15 | 31/10/19 | £13.50 | 78,000 | | 0 |
| CSOP2014 Bonus Exchange | 13,077 | | 21/03/14 | 21/03/14 | 21/03/14 | £13.00 | 13,077 | | 0 |
| CSOP2013 | 30,000 | | 11/11/13 | 11/11/16 | 11/11/18 | £12.00 | 18,000 | | 0 |
| CSOP2012 | 50,000 | | 31/10/12 | 31/10/13 | 31/10/15 | £10.00 | 50,000 | | 0 |
| CSOP2011 | 11,000 | | 07/10/11 | 07/10/12 | 07/10/14 | £9.00 | 11,000 | | 3,333 |
| Listing awards | | 55,459 | 04/03/16 | | | | | 19,964 | 0 |
| **Total** | **355,893** | **55,459** | | | | | **223,437** | **19,964** | **3,333** |

*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 |
|---|---|---|---|---|---|---|---|---|---|
| CSOP2017 | 15,750 | | 31/03/17 | 30/04/18 | 30/04/22 | £32.73 | 0 | | |
| CSOP2017 Deferred Cash1 yr | 7,875 | | 31/03/17 | 30/04/18 | 30/04/18 | £32.73 | 0 | | |
| CSOP2017 Bonus Exchange | 7,875 | | 31/03/17 | 31/03/17 | 31/03/17 | £32.73 | 7,875 | | |
| CSOP2015 | 15,000 | | 04/11/15 | 31/10/16 | 31/10/20 | £16.00 | 6,000 | | 0 |
| CSOP2015 Bonus Exchange | 12,637 | | 20/03/15 | 20/03/15 | 20/03/15 | £14.00 | 12,637 | | 0 |
| CSOP2014 | 32,500 | | 31/10/14 | 31/10/15 | 31/10/19 | £13.50 | 19,500 | | 0 |
| CSOP2013 | 14,000 | | 11/11/13 | 11/11/16 | 11/11/18 | £12.00 | 8,400 | | 0 |
| CSOP2012 | 10,000 | | 31/10/12 | 31/10/13 | 31/10/15 | £10.00 | 10,000 | | 0 |
| CSOP2011 | 5,000 | | 07/10/11 | 07/10/12 | 07/10/14 | £9.00 | 5,000 | | 3,333 |
| Listing awards | | 32,054 | 04/03/16 | | | | | 11,538 | 0 |
| **Total** | **120,637** | **32,054** | | | | | **69,412** | **11,538** | **3,333** |

*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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 7,500 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 3,000 | 0 |
| CSOP2014 | 15,000 | 31/10/14 | £13.50 | 31/10/15 | 31/10/19 | 9,000 | 0 |
| CSOP2013 | 5,000 | 11/11/13 | £12.00 | 11/11/16 | 11/11/18 | 3,000 | 0 |
| CSOP2012 | 2,000 | 31/10/12 | £10.00 | 31/10/13 | 31/10/15 | 2,000 | 2,000 |
| CSOP2011 | 4,000 | 07/10/11 | £9.00 | 07/10/12 | 07/10/14 | 4,000 | 4,000 |
| **Total** | **33,500** | | | | | **21,000** | **6,000** |

# ANNUAL REPORT ON REMUNERATION CONTINUED

### *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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 7,500 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 3,000 | 0 |
| CSOP2014 | 15,000 | 31/10/14 | £13.50 | 31/10/15 | 31/10/19 | 9,000 | 0 |
| CSOP2013 | 5,000 | 11/11/13 | £12.00 | 11/11/16 | 11/11/18 | 3,000 | 0 |
| CSOP2012 | 2,000 | 31/10/12 | £10.00 | 31/10/13 | 31/10/15 | 2,000 | 2,000 |
| CSOP2011 | 4,000 | 07/10/11 | £9.00 | 07/10/12 | 07/10/14 | 4,000 | 4,000 |
| **Total** | **33,500** | | | | | **21,000** | **6,000** |

### *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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 7,500 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 3,000 | 0 |
| CSOP2014 | 15,000 | 31/10/14 | £13.50 | 31/10/15 | 31/10/19 | 9,000 | 0 |
| CSOP2013 | 5,000 | 11/11/13 | £12.00 | 11/11/16 | 11/11/18 | 3,000 | 0 |
| CSOP2012 | 2,000 | 31/10/12 | £10.00 | 31/10/13 | 31/10/15 | 2,000 | 0 |
| CSOP2011 | 4,000 | 07/10/11 | £9.00 | 07/10/12 | 07/10/14 | 4,000 | 0 |
| **Total** | **33,500** | | | | | **21,000** | **0** |

### *Lord 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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 7,500 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 3,000 | 0 |
| CSOP2014 | 15,000 | 31/10/14 | £13.50 | 31/10/15 | 31/10/19 | 9,000 | 0 |
| CSOP2013 | 5,000 | 11/11/13 | £12.00 | 11/11/16 | 11/11/18 | 3,000 | 0 |
| CSOP2012 | 2,000 | 31/10/12 | £10.00 | 31/10/13 | 31/10/15 | 2,000 | 0 |
| CSOP2011 | 4,000 | 07/10/11 | £9.00 | 07/10/12 | 07/10/14 | 4,000 | 0 |
| **Total** | **33,500** | | | | | **21,000** | **0** |

### *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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 7,500 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 3,000 | 0 |
| CSOP2014 | 15,000 | 31/10/14 | £13.50 | 31/10/15 | 31/10/19 | 9,000 | 0 |
| CSOP2013 | 5,000 | 11/11/13 | £12.00 | 11/11/16 | 11/11/18 | 3,000 | 0 |
| CSOP2012 | 2,000 | 31/10/12 | £10.00 | 31/10/13 | 31/10/15 | 2,000 | 0 |
| CSOP2011 | 4,000 | 07/10/11 | £9.00 | 07/10/12 | 07/10/14 | 4,000 | 0 |
| **Total** | **33,500** | | | | | **21,000** | **0** |

### *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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 7,500 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 3,000 | 0 |
| **Total** | **7,500** | | | | | **3,000** | **0** |

### *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 |
|---|---|---|---|---|---|---|---|
| CSOP2015 | 5,000 | 04/11/15 | £16.00 | 31/10/16 | 31/10/20 | 2,000 | 0 |
| **Total** | **5,000** | | | | | **2,000** | **0** |

### Executive Director Proposed Share Option Awards

The proposed share option awards to be made in 2018 in respect of the 2017 performance year are already included in the single figure table for 2017 variable pay in the table above and are as follows*:

| Vesting period | Craig Donaldson | Mike Brierley |
|---|---|---|
| Immediate* | 20,000 | 10,000 |
| After one year | 20,000 | 10,000 |
| After five years | 40,000 | 20,000 |
| **Total** | **80,000** | **40,000** |

* This assumes the Director decides to exchange their cash bonus in its entirety for share options.

# INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF METRO BANK PLC

## Report on the audit of the financial statements

### Opinion

In our opinion, Metro Bank PLC's consolidated 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 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the consolidated and Company balance sheets as at 31 December 2017; the consolidated income statement and statement of comprehensive income, the consolidated and Company statements of cash flows, and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

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

*Independence*

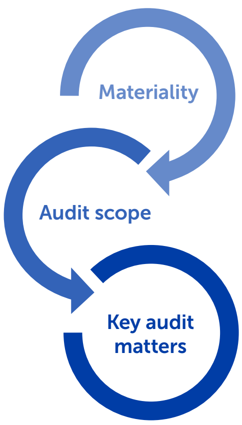
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

### Our audit approach

*Overview*




- Overall Group materiality: £1.9 million (2016: £2.0 million), based on 5% of the average profit or loss before tax of the last 5 years.

- Overall parent materiality: £2.0 million (2016: £2.1 million), based on 5% of the average profit or loss before tax of the last 5 years.

- The Group is composed of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited, which are referred to in our report as business components.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of business components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over business components 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). We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the non-financially significant business components.

The areas of focus for our audit which involved the greatest allocation of our resources and effort were:

- Impairment of loans to customers (Group and Company)
- Recognition of revenue on loans to customers (Group and Company)
- Recognition of the deferred tax asset in respect of trading tax losses (Group and Company)

These items were discussed with the Audit Committee as part of our audit plan communicated in September 2017 and updated in November 2017. These were the key audit matters for discussion at the conclusion of our audit.

*The scope of our audit*

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation and the Financial Conduct Authority's and Prudential Regulation Authority's regulations. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We found the risk of fraud in revenue recognition related to customer loans to be a key audit matter, and this is discussed further below. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

*Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

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

**Key audit matter**

## Impairment of loans 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 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. These included the probability of default, the loss given default, and for individually assessed loans, the valuation of and expected cashflows related to collateral held by the Group.

On 1 January 2018, the Group transitioned to the new financial instruments accounting standard IFRS 9, which replaced IAS 39. The estimated transition impact is disclosed in the notes to the financial statements in accordance with IAS 8. The most significant change relates to the provisions for impairment. In order to meet the requirements of the new standard, significant changes have also been made to systems, processes and controls with effect from 1 January 2018.

(Group and Company)

**How our audit addressed the key audit matter**

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, critically assessed 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 had not been properly evaluated by management, or 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 of loans 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.

In respect of the estimated impact of the adoption of IFRS 9, we understood and critically assessed classification and measurement decisions and the impairment models developed by the Group. This included using our credit modelling specialists in our assessment of judgements and assumptions supporting the expected credit loss requirements of the standard. We re-performed selected model calculations to confirm the model outputs and we assessed the reasonableness of forward looking information incorporated into the impairment calculations.

Based on the evidence obtained, we found that the methodologies and data used within the models were appropriate, and that the model assumptions and overlays to modelled outputs were reasonable.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Recognition of revenue on loans to customers**<br>The Group recognises interest income using the effective interest rate method which spreads interest and directly attributable cash flows, the most significant of which relate to loan arrangement fees and upfront costs of new lending, over the loans' expected lives.<br><br>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.<br><br>(Group and Company) | We assessed and tested the design and operating effectiveness of the controls directly associated with the calculation and reporting of interest income on loans to customers. These controls included:<br>• accurate input of loan data into core systems;<br>• appropriate authorisation of amendments to data; and<br>• determination and approval of the assumptions used in the effective interest rate calculations.<br><br>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.<br><br>We assessed management's effective interest rate calculations through stressing the assumptions applied and utilising internal benchmarks to evaluate the appropriateness of the key assumptions used. We found no material exceptions. |
| **Recognition of deferred tax asset in respect of trading tax losses**<br>The recognition of the deferred tax asset in respect of tax losses is permitted only to the extent that there is convincing evidence that there will be sufficient taxable profits in the future to utilise the tax losses carried forward.<br><br>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.<br><br>(Group and Company) | 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 forecast loan performance.<br><br>We 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.<br><br>We reviewed sensitivity analysis performed by management, looking at the impact on recovery of the asset under varying scenarios.<br><br>We performed procedures over the existence of the asset, including inspection of correspondence with HMRC and substantiating tax losses to corroborating evidence.<br><br>We concluded that management's judgements in respect of the deferred tax asset are supportable in the context of the information currently available |

*How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls in place, and the industry in which they operate.

The Group is composed of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited. 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). We performed audit procedures over business components 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 levels set out above. We also performed other audit procedures including testing information technology general controls and controls over key outsourced functions related to financial reporting, to mitigate the risk of material misstatement.

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

This approach gave us coverage of over 99% of the Group's total assets. Audit coverage on account balances in the consolidated income statement ranges between 85% and 100%. For the remaining balances within business components which were not individually financially significant, the risk of material misstatement was 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 financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

| | Group financial statements | Company financial statements |
|---|---|---|
| **Overall materiality** | £1.9 million (2016: £2.0 million). | £2.0 million (2016: £2.1 million). |
| **How we determined it** | 5% of average profit or loss before tax of the last 5 years. | 5% of average profit or loss before tax of the last 5 years. |
| **Rationale for benchmark applied** | Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. | Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the company, and is a generally accepted auditing benchmark. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £92,000 (Group audit) (2016: £97,000) and £99,000 (Company audit) (2016: £107,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

*Going concern*

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. |
| We are required to report if the directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

### Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) ("Listing Rules") require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06).

### The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 47 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 37 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 48, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 56 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors..

### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06).

### Responsibilities for the financial statements and the audit

***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities set out on page 47, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

## Other required reporting

### Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company 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.

### Appointment
We were appointed by the directors on 29 July 2009 to audit the financial statements of the Company for the first long accounting period ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 8.5 years, covering the periods ended 31 December 2010 to 31 December 2017.

**Darren L Meek (Senior Statutory Auditor)**
**for and on behalf of PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
1 March 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Notes | Year ended 31 December 2017 £'000 | Year ended 31 December 2016 £'000 |
|---|---|---|---|
| Interest income | 2 | 301,946 | 213,486 |
| Interest expense | 2 | (60,964) | (59,246) |
| **Net interest income** | | 240,982 | 154,240 |
| Fee and commission income | 3 | 29,715 | 22,189 |
| Net gains on sale of investment securities | | 3,692 | 5,391 |
| Other income | 4 | 19,363 | 13,286 |
| **Total income** | | 293,752 | 195,106 |
| Operating expenses | 5 | (231,409) | (179,767) |
| Depreciation and amortisation | 11, 12 | (33,430) | (22,379) |
| Costs associated with listing | | - | (1,841) |
| Listing Share Awards | | (1,376) | (3,296) |
| Impairment of property, plant and equipment and intangible assets | 11, 12 | (639) | (315) |
| **Total operating expenses** | | (266,854) | (207,598) |
| Credit impairment charges | | (8,223) | (4,706) |
| **Profit/(loss) before tax** | | 18,675 | (17,198) |
| Taxation | 8 | (7,886) | 445 |
| **Profit/(loss) for the year** | | 10,789 | (16,753) |
| **Other comprehensive income/(expense) 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 | | 2,745 | 13,937 |
| – fair value gains transferred to the income statement on disposal | | (3,692) | (5,391) |
| **Total other comprehensive income/(expense)** | | (947) | 8,546 |
| **Total comprehensive profit/(loss) for the year** | | 9,842 | (8,207) |
| **Earnings/(loss) per share** | | | |
| Basic (pence) | 28 | 12.8 | (22.0) |
| Diluted (pence) | 28 | 12.6 | (22.0) |

# CONSOLIDATED BALANCE SHEET

## AS AT 31 DECEMBER 2017

| | Notes | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with the Bank of England | | **2,111,630** | 434,612 |
| Loans and advances to banks | | **100,388** | 65,816 |
| Loans and advances to customers | 9 | **9,620,326** | 5,865,370 |
| Available-for-sale investment securities | 10 | **360,704** | 604,127 |
| Held to maturity investment securities | 10 | **3,553,801** | 2,622,588 |
| Property, plant and equipment | 11 | **327,550** | 246,690 |
| Intangible assets | 12 | **148,231** | 92,515 |
| Prepayments and accrued income | 13 | **52,785** | 43,000 |
| Deferred tax asset | 8 | **53,697** | 56,279 |
| Other assets | 14 | **26,243** | 26,291 |
| **Total assets** | | **16,355,355** | 10,057,288 |
| **Liabilities** | | | |
| Deposits from customers | | **11,668,738** | 7,950,579 |
| Deposits from central banks | | **3,320,900** | 543,000 |
| Repurchase agreements | | **121,558** | 653,091 |
| Other liabilities | 15 | **148,270** | 106,083 |
| **Total liabilities** | | **15,259,466** | 9,252,753 |
| **Equity** | | | |
| Called-up share capital | 16 | **–** | – |
| Share premium | 16 | **1,303,503** | 1,027,645 |
| Retained earnings | 18 | **(219,404)** | (230,193) |
| Other reserves | | **11,790** | 7,083 |
| **Total equity** | | **1,095,889** | 804,535 |
| **Total equity and liabilities** | | **16,355,355** | 10,057,288 |

The accounting policies, notes and information on pages 94 to 131 form part of the financial statements.

The financial statements on pages 87 to 131 were approved by the Board of Directors on 1 March 2018 and 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 2017

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Available-for-sale reserve £'000 | Share option reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | **–** | **1,027,645** | **(230,193)** | **(3,472)** | **10,555** | **804,535** |
| Net profit for the year | – | – | 10,789 | – | – | 10,789 |
| Other comprehensive expense, net of tax, relating to available-for-sale investments | – | – | – | (947) | – | (947) |
| Total comprehensive income | – | – | 10,789 | (947) | – | 9,842 |
| Share issue | – | 278,785 | – | – | – | 278,785 |
| Cost of share issue | – | (2,927) | – | – | – | (2,927) |
| Net share option movements | – | – | – | – | 5,654 | 5,654 |
| **Balance as at 31 December 2017** | **–** | **1,303,503** | **(219,404)** | **(4,419)** | **16,209** | **1,095,889** |
| **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) |
| Net share option movements | – | – | – | – | 7,226 | 7,226 |
| **Balance as at 31 December 2016** | – | 1,027,645 | (230,193) | (3,472) | 10,555 | 804,535 |
| Notes | 16 | 16 | 18 | | | |

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 2017

| | Notes | Year ended 31 December 2017 £'000 | Year ended 31 December 2016 £'000 |
|---|---|---|---|
| **Reconciliation of profit/(loss) before tax to net cash flows from operating activities:** | | | |
| Profit/(loss) before tax | | 18,675 | (17,198) |
| Adjustments for: | | | |
| Loss on disposal of property, plant and equipment and intangible assets | | 132 | – |
| Impairment and write-offs of property, plant and equipment and intangible assets | | 881 | 793 |
| Depreciation and amortisation | 11, 12 | 33,430 | 22,379 |
| Share option charge | | 3,160 | 1,873 |
| Gain on sale of securities and fair value gains on derivatives | | (3,722) | (5,376) |
| Accrued interest on and amortisation of investment securities | | 2,080 | (4,152) |
| Changes in operating assets | | (3,755,114) | (2,341,143) |
| Changes in operating liabilities | | 5,994,389 | 3,511,726 |
| **Net cash inflows from operating activities** | | 2,293,911 | 1,168,902 |
| **Cash flows from investing activities** | | | |
| Sales of investment securities | | 309,335 | 2,196,953 |
| Purchase of investment securities | | (997,280) | (3,403,039) |
| Purchase of property, plant and equipment | 11 | (99,877) | (97,828) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 41 | 4 |
| Purchase and development of intangible assets | 12 | (70,398) | (45,053) |
| **Net cash outflows from investing activities** | | (858,179) | (1,348,963) |
| **Cash flows from financing activities** | | | |
| Share issue | 16 | 278,785 | 403,572 |
| Cost of share issue | 16 | (2,927) | (5,231) |
| **Net cash inflows from financing activities** | | 275,858 | 398,341 |
| **Net increase in cash and cash equivalents** | | 1,711,590 | 218,280 |
| Cash and cash equivalents at start of year | | 500,428 | 282,148 |
| **Cash and cash equivalents at end of year** | | 2,212,018 | 500,428 |
| **Profit/(loss) before tax includes:** | | | |
| Interest received | | 296,489 | 207,678 |
| Interest paid | | 60,833 | (53,246) |
| **Cash and cash equivalents comprise:** | | | |
| Cash and balances with the Bank of England | | 2,111,630 | 434,612 |
| Loans and advances to banks | | 100,388 | 65,816 |
| | | 2,212,018 | 500,428 |

# COMPANY BALANCE SHEET

## AS AT 31 DECEMBER 2017

| | Notes | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with the Bank of England | | 2,111,630 | 434,612 |
| Loans and advances to banks | | 94,835 | 64,368 |
| Loans and advances to customers | 9 | 9,392,971 | 5,705,961 |
| Available-for-sale investment securities | | 360,704 | 604,127 |
| Held to maturity investment securities | | 3,553,801 | 2,622,588 |
| Property, plant and equipment | | 327,535 | 246,663 |
| Investment in subsidiaries | | 15,000 | 15,000 |
| Intangible assets | 12 | 141,209 | 87,072 |
| Prepayments and accrued income | 13 | 49,970 | 40,398 |
| Deferred tax asset | | 53,842 | 56,436 |
| Other assets | 14 | 240,549 | 169,776 |
| **Total assets** | | 16,342,046 | 10,047,001 |
| **Liabilities** | | | |
| Deposits from customers | | 11,668,738 | 7,950,579 |
| Deposits from central banks | | 3,320,900 | 543,000 |
| Repurchase agreements | | 121,558 | 653,091 |
| Other liabilities | 15 | 142,393 | 101,353 |
| **Total liabilities** | | 15,253,589 | 9,248,023 |
| **Equity** | | | |
| Called-up share capital | 16 | – | – |
| Share premium | 16 | 1,303,503 | 1,027,645 |
| Retained earnings* | 18 | (226,836) | (235,750) |
| Other reserves | | 11,790 | 7,083 |
| **Total equity** | | 1,088,457 | 798,978 |
| **Total equity and liabilities** | | 16,342,046 | 10,047,001 |

* The Company profit for the year was £8.9 million (2016: loss of £19.2 million).

The financial statements on pages 87 to 131 were approved by the Board of Directors on 1 March 2018 and 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 2017

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Available-for-sale reserve £'000 | Share option reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2017** | **–** | **1,027,645** | **(235,750)** | **(3,472)** | **10,555** | **798,978** |
| Net profit for the year | – | – | 8,914 | – | – | 8,914 |
| Other comprehensive income, net of tax, relating to available-for-sale investments | – | – | – | (947) | – | (947) |
| Total comprehensive income | – | – | 8,914 | (947) | – | 7,967 |
| Share issue | – | 278,785 | – | – | – | 278,785 |
| Cost of share issue | – | (2,927) | – | – | – | (2,927) |
| Net share option movements | – | – | – | – | 5,654 | 5,654 |
| **Balance as at 31 December 2017** | **–** | **1,303,503** | **(226,836)** | **(4,419)** | **16,209** | **1,088,457** |
| **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) |
| Net share option movements | – | – | – | – | 7,226 | 7,226 |
| **Balance as at 31 December 2016** | – | 1,027,645 | (235,750) | (3,472) | 10,555 | 798,978 |
| Notes | 16 | 16 | 18 | | | |

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 2017

| | Notes | Year ended 31 December 2017 £'000 | Year ended 31 December 2016 £'000 |
|---|---|---|---|
| **Reconciliation of profit/(loss) before tax to net cash flows from operating activities:** | | | |
| Profit/(loss) before tax | | 16,306 | (20,541) |
| Adjustments for: | | | |
| Loss on disposal of property, plant and equipment and intangible assets | | 141 | – |
| Impairment and write-offs of property, plant and equipment and intangible assets | | 882 | 794 |
| Depreciation and amortisation | | 33,302 | 22,302 |
| Share option charge | | 3,160 | 1,873 |
| Gain on sale of securities and fair value gains on derivatives | | (3,722) | (5,376) |
| Accrued interest on and amortisation of investment securities | | 2,080 | (4,152) |
| Changes in operating assets | | (3,757,429) | (2,346,135) |
| Changes in operating liabilities | | 5,993,396 | 3,515,205 |
| **Net cash inflows from operating activities** | | 2,288,116 | 1,163,970 |
| **Cash flows from investing activities** | | | |
| Sales of investment securities | | 309,335 | 2,196,953 |
| Purchase of investment securities | | (997,280) | (3,403,039) |
| Purchase of property, plant and equipment | | (99,877) | (97,816) |
| Proceeds from sale of property, plant and equipment | | 41 | – |
| Purchase and development of intangible assets | 12 | (68,708) | (44,144) |
| **Net cash outflows from investing activities** | | (856,489) | (1,348,046) |
| **Cash flows from financing activities** | | | |
| Share issue | 16 | 278,785 | 403,572 |
| Cost of share issue | 16 | (2,927) | (5,231) |
| **Net cash inflows from financing activities** | | 275,858 | 398,341 |
| **Net increase in cash and cash equivalents** | | 1,707,485 | 214,265 |
| Cash and cash equivalents at start of year | | 498,980 | 284,715 |
| **Cash and cash equivalents at end of year** | | 2,206,465 | 498,980 |
| **Profit/(loss) before tax includes:** | | | |
| Interest received | | 285,704 | 195,157 |
| Interest paid | | 60,833 | (53,246) |
| **Cash and cash equivalents comprise:** | | | |
| Cash and balances with the Bank of England | | 2,111,630 | 434,612 |
| Loans and advances to banks | | 94,835 | 64,368 |
| | | 2,206,465 | 498,980 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Basis of preparation and significant accounting policies

This section sets out the Group's ('our' or 'we') accounting policies which relate to the financial statements as a whole. Where an accounting policy relates specifically to a note then the related accounting policy is set out within that note. All policies have been consistently applied to all the years presented unless stated otherwise.

### 1.1 General information

Metro Bank ('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 the United Kingdom under the Companies Act 2006 (Registration number 6419578). The address of our registered office is One Southampton Row, London WC1B 5HA.

### 1.2 Basis of preparation

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

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

In publishing the Company financial statements here together with the Group financial statements, we have taken advantage of the exemption in section 408(3) of the Companies Act 2006 not to present an individual income statement and related notes that form a part of these financial statements.

### 1.3 Cash flow statement

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.

The consolidated cash flow statement 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

At the year end the following standards were in issue but not yet effective and have not been adopted early in these financial statements:

*(a) IFRS 9 'Financial Instruments'*

Full details can be found in note 30.

*(b) IFRS 16 'Leases'*

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 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases, with operating leases being brought onto the face of the balance sheet. IFRS 16 will have a material impact on the amounts recognised in our financial statements. We are currently assessing the impact of IFRS 16, and it is not practicable to quantify the effect at the date of the publication of these financial statements. Details of our current lease commitments can be found in note 20.

*(c) IFRS 15 'Revenue from Contracts with Customers'*

From 1 January 2018, we adopted IFRS 15 'Revenue from Contracts with Customers'. We applied the modified retrospective method with the cumulative effect of any adjustments being made directly within retained earnings. The majority of our revenue is net interest income which is accounted for under IFRS 9 from 1 January 2018. Accordingly, the majority of our revenues were not affected. Management has performed an assessment of the non-interest income revenue streams which are within the scope of the new standard. The impact of adopting the standard is immaterial.

### 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 our Board of Directors.

**1. Basis of preparation and significant accounting policies** continued

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

We lend solely within the UK and, as such, no geographical analysis is required. We are not reliant on any single customer.

### 1.6 Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements are measured using pounds Sterling, the currency of the UK, which is the primary economic environment in which we operate ('the functional currency').

The financial statements are presented in pounds Sterling, which is our 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 other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

### 1.7 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 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) 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.

The probability of default and the probability of this default resulting in possession and/or write-off are determined based on historic default data observed by the bank. This approach is industry standard. The subsequent loss incurred on default is determined using the following inputs: the loan balance, the value of collateral held against a loan and any adjustment required to reflect costs of recovery, or disposal of the collateral. The key estimate which materially impacts impairment provisions required is considered to be the value of collateral:

For mortgage loan receivables, to the extent that:

- 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 £1.2 million lower or £1.8 million higher respectively.

For commercial loan receivables, to the extent that:

- the value of collateral differs by +/- 10%, for example the value of a commercial property on which a loan is secured of £100,000 is increased to £110,000 or decreased to £90,000, the impairment allowance would be an estimated £0.1 million lower or £0.2 million higher respectively.

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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 1. Basis of preparation and significant accounting policies continued

***(b) 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 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:

- 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 £0.5 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 £0.7 million.

***(c) 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 recognition and measurement. At 31 December 2017, we recognised a deferred tax asset (net) of £53.7 million (2016: £56.3 million) in respect of tax losses carried forward and taxable temporary timing differences. The decrease reflects in main the use of taxable losses against taxable profits earned during the year.

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 estimation uncertainty, principally relating to projections of future taxable income based on business plans, and how the timing of that income affects the rate the deferred tax asset is valued at. These income projections include assumptions about our future strategy and our ability to deliver expected performance against projections for new stores, deposit and loan growth, loan to deposit ratio, interest margins and operating costs.

Our Directors are satisfied based on our progress since launch, the detailed projections which include stress-tested scenarios, and the reliability of forecasts used, that sufficient taxable profits will be available to utilise the tax losses carried forward in full, and that the measurement of the deferred tax asset is reasonable.

## 2. Net interest income

**Accounting policy**

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

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do 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.

### Interest income

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Investment securities | **56,873** | 46,528 |
| Loans and advances to customers | **245,073** | 166,958 |
| Total interest income | **301,946** | 213,486 |

### Interest expense

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Interest on customer accounts | **46,896** | 48,481 |
| Interest on repurchase agreements | **1,554** | 4,900 |
| Interest on Term Funding Scheme ('TFS') | **5,437** | 187 |
| Other | **7,077** | 5,678 |
| Total interest expense | **60,964** | 59,246 |

## 3. Fee and commission income

**Accounting policy**

Fee and commission income is earned from a wide range of services we provide to our FANS and customers. We account for fees and commissions as follows:

| Product and service | Nature, timing and satisfaction of performance obligations and payment terms |
|---|---|
| Service charges and other fee income | We levy a range of standard charges and fees for accountant maintenance or specific account services. Where the fee is earned upon the execution of a significant act, for example CHAPs payment charges, these are recognised as revenue when the act is completed for the customer. Where the income is earned from the provision of services, for example an account maintenance fee, this is recognised as revenue when the service is delivered. |
| Safe deposit box income | Revenue is recognised over the period the customer has access to the box from the date possession is taken. Safe deposit box fees are billed on either a monthly or annual basis with a standard set price payable dependent on the size of box. |
| ATM and interchange fees | Where we earn fees from our ATMs or from interchange this is recognised at the point the service is delivered. |

As disclosed in note 1.5, we provide services solely within the UK and therefore revenues are not presented on a geographic basis. Revenue is grouped solely by contract-type as we believe this best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Service charges and other fee income | 17,864 | 13,290 |
| Safe deposit box income | 9,119 | 7,012 |
| ATM and interchange fees | 2,732 | 1,887 |
| Total fee and commission income | 29,715 | 22,189 |

## 4. Other income

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Gains on foreign currency transactions | 17,445 | 10,846 |
| Rental income | 1,385 | 631 |
| Other | 533 | 1,809 |
| Total other income | 19,363 | 13,286 |

## 5. Operating expenses

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| People costs | 122,406 | 93,185 |
| Occupancy expense | 30,925 | 26,082 |
| Information technology costs | 19,863 | 14,274 |
| Marketing costs | 3,735 | 3,035 |
| Legal, regulatory and professional fees | 7,273 | 6,122 |
| Other | 47,207 | 37,069 |
| Total operating expenses | 231,409 | 179,767 |

Included within legal, regulatory and professional fees is £590,000 (2016: £790,000) in respect of the Financial Services Compensation Scheme ('FSCS') levy.

## 6. People costs

**Accounting policy** We operate a defined contribution pension scheme for our colleagues. Contributions to colleagues' individual personal pension plans are made on a contractual basis, with no further payment obligations once the contributions have been paid. These contributions are recognised as an expense when they fall due.

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Wages and salaries | **102,040** | 77,954 |
| Social security costs | **10,657** | 8,304 |
| Other pension costs | **6,534** | 4,580 |
| Equity-settled share-based payments | **3,175** | 2,347 |
| Total people costs | **122,406** | 93,185 |

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 Payments'). 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. 20% of the award vested in March 2016 with a further 16% vesting on 30 April 2017. The remaining 64% will vest annually on 30 April, 16% each year. The total expense to be recognised in respect of the Listing Share Awards, equal to the fair value of the awards, is £6.5 million. This is equal to the market value of shares at the grant date. An expense of £1.4 million was recognised in 2017 (2016: £3.3 million). This expense is included in the income statement within Listing Share Awards.

The average monthly number of persons employed during the year was 2,831 (2016: 2,129).

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Customer-facing | **1,774** | 1,400 |
| Non-customer-facing | **1,057** | 729 |
| Total number of persons employed | **2,831** | 2,129 |

**Pension costs**
Payments were made amounting to £7.1 million (2016: £4.9 million) to employees' individual personal pension plans during the year.

## 7. Fees payable to the Group's auditor

Fees payable to our auditors PricewaterhouseCoopers LLP ('PwC') are analysed below:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| For Metro Bank's statutory audit | **1,175** | 865 |
| 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** | 37 |
| For the reporting accountant services provided in association with the Listing | **–** | 588 |
| For tax advisory services | **–** | 10 |
| For all other services | **79** | 60 |
| Total fees payable to the Group's auditors | **1,291** | 1,774 |

## 8. Taxation

**Accounting policy**

**Current income tax**

Our 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 we have tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

**Deferred 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 balance sheet 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.

We recognise a deferred tax asset 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.

### Income tax (expense)/credit

The components of income tax (expense)/credit for the year are:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Current tax: | | |
| Current income tax | (958) | (177) |
| Adjustment in respect of prior years | 38 | – |
| Total current tax expense | (920) | (177) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | (5,210) | (584) |
| Effect of changes in tax rates | (2,974) | 280 |
| Adjustment in respect of prior years | 1,218 | 926 |
| Total deferred tax (expense)/credit | (6,966) | 622 |
| Total tax (expense)/credit | (7,886) | 445 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 8. Taxation continued

### Reconciliation of the total tax (expense)/credit

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

A reconciliation between the tax (expense)/credit and the accounting profit/(loss) multiplied by the UK corporation tax rate for the years ended 31 December 2017 and 2016 is as follows:

| Group | 2017 £'000 | Effective tax rate % | 2016 £'000 | Effective tax rate % |
|---|---|---|---|---|
| Accounting profit/(loss) before tax | 18,675 | | (17,198) | |
| Tax expense at statutory income tax rate of 19.25% (2016: 20%) | (3,595) | 19.25% | 3,440 | 20% |
| Tax effects of: | | | | |
| Non-deductible expenses – listing fees | – | 0% | (368) | (2.1%) |
| Non-deductible expenses – depreciation on non-qualifying fixed assets | (2,628) | 14.1% | (2,261) | (13.1%) |
| Non-deductible expenses – other | (537) | 2.9% | (863) | (5.0%) |
| Share based payments | 630 | (3.4%) | 271 | 1.5% |
| Adjustment in respect of prior years | 1,218 | (6.5%) | (54) | (0.3%) |
| Effect of changes in tax rates | (2,974) | 15.9% | 280 | 1.6% |
| Income tax (expense)/credit reported in the consolidated income statement | (7,886) | 42.2% | 445 | 2.6% |

### Adjustment in respect of prior years

During the years to 31 December 2017 and 2016 we submitted an amendment to prior year corporate tax returns (years ended 2016 and 2015) that resulted in an increase in prior period losses. The amendments in 2017 related mainly to the reclassification of some store costs from non-qualifying to qualifying expenditure. The amendments in 2016 related mainly to prior year accounting adjustments to reflect actual VAT recovery following the Bank's agreement of a partial exemption special method ('PESM') with HMRC. In addition, 2017 and 2016 include prior year adjustments to share based payments where the current and deferred tax treatment has been subsequently revised.

### Effect of changes in tax rates

Legislation restricting the amount of profit that may be offset by brought forward losses to 50% was substantively enacted on 31 October 2017 and was effective from 1 April 2017. As a result, the relevant deferred tax balances have been remeasured using the effective tax rate that will apply. The impact of the change in tax rate has been recognised in tax expense. Banks are also subject to a lower threshold of 25% of profits that can be utilised against losses accrued by 1 April 2015. However, this loss restriction relief does not apply to the first five years of banking activity so this particular restriction will not impact us.

### Effective tax rate

The effective tax rate for the year is 42.2% (2016: 2.6%) due to the impact of the loss restriction relief on the net deferred tax asset. The effective tax rate on profits, excluding the impact of the loss restriction relief, is 26.3%.

## 8. 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. Further information on the details of the judgements taken around deferred tax are discussed in note 1.

The following table shows deferred tax recorded in the balance sheet and changes recorded in the Income tax expense:

| Group | Unused tax losses £'000 | Available-for-sale securities £'000 | Share-based payments £'000 | Property, plant and equipment £'000 | Intangible assets £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Deferred tax assets | **56,936** | **1,117** | **10,990** | **–** | **228** | **69,271** |
| Deferred tax liabilities | **–** | **(1,226)** | **(368)** | **(7,747)** | **(6,233)** | **(15,574)** |
| Deferred tax assets (net) | **56,936** | **(109)** | **10,622** | **(7,747)** | **(6,005)** | **53,697** |
| **At 1 January 2017** | **61,403** | **(1,723)** | **6,195** | **(4,478)** | **(5,118)** | **56,279** |
| Income statement | **(3,787)** | **–** | **977** | **(3,269)** | **(887)** | **(6,966)** |
| Other comprehensive income | **(680)** | **1,614** | **–** | **–** | **–** | **934** |
| Equity | **–** | **–** | **3,450** | **–** | **–** | **3,450** |
| **At 31 December 2017** | **56,936** | **(109)** | **10,622** | **(7,747)** | **(6,005)** | **53,697** |
| **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 December 2016 | 61,403 | (1,723) | 6,195 | (4,478) | (5,118) | 56,279 |

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

## 9. Loans and advances to customers and banks

**Accounting policy** Loans and advances made to our customers and banks 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, which is detailed further in note 2. 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'.

| | Group 31 December 2017 £'000 | Group 31 December 2016 £'000 | Company 31 December 2017 £'000 | Company 31 December 2016 £'000 |
|---|---|---|---|---|
| **Gross loans and advances to customers** | **9,634,687** | 5,872,864 | **9,406,004** | 5,712,571 |
| Less: allowance for impairment | **(14,361)** | (7,494) | **(13,033)** | (6,610) |
| **Net loans and advances to customers** | **9,620,326** | 5,865,370 | **9,392,971** | 5,705,961 |
| Amounts include: | | | | |
| Repayable on demand or at short notice | **160,251** | 49,215 | **160,251** | 53,218 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 9. Loans and advances to customers and banks continued

| | Group 31 December 2017 £'000 | Group 31 December 2016 £'000 | Company 31 December 2017 £'000 | Company 31 December 2016 £'000 |
|---|---|---|---|---|
| **Individual (retail customers):** | | | | |
| Overdrafts | **85,801** | 66,088 | **85,801** | 66,088 |
| Credit cards | **8,888** | 7,369 | **8,888** | 7,369 |
| Term loans | **121,728** | 107,584 | **121,728** | 107,584 |
| Mortgages | **6,231,415** | 3,604,591 | **6,231,415** | 3,604,591 |
| **Corporate:** | | | | |
| Overdrafts | **139,418** | 32,613 | **139,418** | 36,615 |
| Credit cards | **2,255** | 1,681 | **2,255** | 1,681 |
| Term loans | **2,816,499** | 1,874,104 | **2,816,499** | 1,874,104 |
| Asset and invoice finance | **228,683** | 164,295 | **–** | – |
| Senior secured lending | **–** | 14,539 | **–** | 14,539 |
| **Gross loans and advances to customers** | **9,634,687** | 5,872,864 | **9,406,004** | 5,712,571 |

| | Group 31 December 2017 £'000 | Group 31 December 2016 £'000 | Company 31 December 2017 £'000 | Company 31 December 2016 £'000 |
|---|---|---|---|---|
| Variable rate loans | **3,311,057** | 2,372,376 | **3,311,057** | 2,372,376 |
| Fixed rate loans | **6,323,630** | 3,500,488 | **6,094,947** | 3,340,195 |
| **Gross loans and advances to customers** | **9,634,687** | 5,872,864 | **9,406,004** | 5,712,571 |

### 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 'portfolio 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.

## 9. Loans and advances to customers and banks continued

| | Group 2017 | | Company 2017 | |
|---|---|---|---|---|
| | 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 | 9,486,149 | 100,388 | 9,259,339 | 94,835 |
| Past due but not impaired | 109,007 | – | 109,007 | – |
| Individually impaired | 12,282 | – | 10,409 | – |
| Portfolio impaired | 27,249 | – | 27,249 | – |
| **Total** | 9,634,687 | 100,388 | 9,406,004 | 94,835 |
| Less: allowance for impairment | (14,361) | – | (13,033) | – |
| **Total** | 9,620,326 | 100,388 | 9,392,971 | 94,835 |
| Individually impaired | (2,759) | – | (1,512) | – |
| Collectively impaired* | (11,602) | – | (11,521) | – |
| **Total allowance for impairment** | (14,361) | – | (13,033) | – |

| | 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.

| | Group 31 December 2017 £'000 | Group 31 December 2016 £'000 | Company 31 December 2017 £'000 | Company 31 December 2016 £'000 |
|---|---|---|---|---|
| **Allowance for impairment at 1 January** | (7,494) | (6,783) | (6,610) | (3,580) |
| Write-offs | 1,423 | 3,483 | 1,262 | 797 |
| Balance sheet reclassification of operational loss provision | – | 924 | – | 924 |
| Increase in impairment allowance | (8,290) | (5,118) | (7,685) | (4,751) |
| **Allowance for impairment at 31 December** | (14,361) | (7,494) | (13,033) | (6.610) |

Credit impairment charges of £8.2 million (2016: £4.7 million) in the consolidated statement of comprehensive income are shown net of recoveries on previously written off loans.

### Past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being in past due but not impaired.

## 9. Loans and advances to customers and banks continued

The gross amounts of loans and advances to customers by class that were past due but not impaired was as follows:

**31 December 2017**

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Mortgages £'000 | Corporate £'000 | Other £'000 | Total £'000 | Mortgages £'000 | Corporate £'000 | Other £'000 | Total £'000 |
| Past due less than 7 days | **26,972** | **36,922** | **1,322** | **65,216** | **26,972** | **36,922** | **1,322** | **65,216** |
| Past due 7–30 days | **19,372** | **18,665** | **823** | **38,860** | **19,372** | **18,665** | **823** | **38,860** |
| Past due 31–60 days | **2,447** | **447** | **599** | **3,493** | **2,447** | **447** | **599** | **3,493** |
| Past due 61–90 days | **830** | **67** | **541** | **1,438** | **830** | **67** | **541** | **1,438** |
| Over 90 days | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Total | **49,621** | **56,101** | **3,285** | **109,007** | **49,621** | **56,101** | **3,285** | **109,007** |

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 7 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 |

## 10. Investment securities

**Accounting policy**

Settlement date accounting is used 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 balance sheet as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

### Held to maturity investment securities

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 us from classifying investment securities as held to maturity for the current and the two following financial years.

### Available-for-sale investment securities

Available-for-sale investment securities 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 investment security is derecognised. If an available-for-sale investment security 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.

### Reclassification of investment securities

We may choose to reclassify investment securities that are classified in the available-for-sale category to the held to maturity category if we have 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.

## 10. Investment securities continued

### Fair values of investment securities held at fair value

| Group and Company | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Recurring fair value measurements | | | |
| **As at 31 December 2017** | | | |
| Financial investments: available-for-sale | **289,941** | **70,763** | **360,704** |
| As at 31 December 2016 | | | |
| Financial investments: available-for-sale | 274,027 | 330,100 | 604,127 |

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

Investment securities 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 17 February 2017 £33.2 million, 18 April 2017 £60.4 million, 21 November 2017 £95.0 million, 19 December 2017 £87.8 million and on 22 December 2017 £46.1 million of financial assets classified as available-for-sale were reclassified as held to maturity. The carrying amount (excluding accrued interest) and fair value of the assets at 31 December 2017 were as follows:

| | Carrying amount £'000 | Fair value £'000 |
|---|---|---|
| **At 31 December 2017** | **313,857** | **323,369** |

A £1.2 million fair value gain was recognised with respect to the reclassified assets in 2017; had these assets not been reclassified, an additional fair value gain of £0.9 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 2017 and 31 December 2017 ranged from 0.96% to 3.65%, with all cash flows expected to be recoverable.

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

| Group and Company | Carrying amount £'000 | Fair value £'000 |
|---|---|---|
| **At 31 December 2017** | **3,553,801** | **3,590,350** |
| At 31 December 2016 | 2,622,588 | 2,651,136 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 11. Property, plant and equipment

**Accounting policy**

Our property, plant and equipment primarily consists of investments and improvements in our store network and is stated at cost less accumulated depreciation and any recognised impairment.

We depreciated property, plant and equipment 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 |

We keep depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment under review to take account of any change in circumstances.

Investment property consists of shops and offices which are located within the same buildings as some of our stores, where we have acquired the freehold interest. Investment property is held to earn rental income and for capital appreciation.

Investment property is also stated at cost less accumulated depreciation and any recognised impairment. Depreciation is calculated on a consistent basis with that applied to land and buildings as disclosed in the table above.

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

| Group | Investment property £'000 | Leasehold improvements £'000 | Freehold land and buildings £'000 | Fixtures, fittings and equipment £'000 | IT hardware £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 1 January 2017 | – | 171,056 | 84,571 | 20,817 | 30,731 | 307,175 |
| Additions | 3,305 | 36,226 | 50,421 | 5,827 | 4,098 | 99,877 |
| Disposals | – | (87) | – | (143) | (21) | (251) |
| Write-offs | – | (186) | (53) | – | – | (239) |
| Transfers | 7,547 | (8,440) | 956 | (63) | – | – |
| Reclassifications | – | (69) | (372) | – | – | (441) |
| **31 December 2017** | 10,852 | 198,500 | 135,523 | 26,438 | 34,808 | 406,121 |
| **Accumulated depreciation** | | | | | | |
| 1 January 2017 | – | 21,982 | 3,376 | 10,937 | 24,190 | 60,485 |
| Impairments | – | 251 | – | – | 80 | 331 |
| Charge for the year | 81 | 8,171 | 1,216 | 3,739 | 4,672 | 17,879 |
| Disposals | – | (2) | – | (82) | (10) | (94) |
| Write-offs | – | (14) | (13) | – | – | (27) |
| Transfers | – | (781) | 1,018 | (237) | – | – |
| Reclassifications | – | (3) | – | – | – | (3) |
| **31 December 2017** | 81 | 29,604 | 5,597 | 14,357 | 28,932 | 78,571 |
| **Net book value** | 10,771 | 168,896 | 129,926 | 12,081 | 5,876 | 327,550 |

## 11. Property, plant and equipment continued

| Group | Investment property £'000 | 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 |
| 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 |

Transfers represents costs associated with the improvements made to previously leased stores which we have purchased within the year.

All investment property has been recognised within the last 12 months and, as such, there is not deemed to be a material difference between the carrying value of £10.8 million shown above and its fair value.

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

## 12. Intangible assets

**Accounting policy**

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our 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.

**Other intangible assets**

Software includes both purchased items and internally developed systems, which consists principally of identifiable and directly associated internal staff and other costs.

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset which we control and which 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 12. Intangible assets continued

| Group | Goodwill £'000 | Customer contracts £'000 | Software £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| 1 January 2017 | 4,140 | 600 | 101,797 | 106,537 |
| Additions | – | – | 70,398 | 70,398 |
| Disposals | – | – | (22) | (22) |
| Write-offs | – | – | (30) | (30) |
| Reclassifications | – | – | 1,545 | 1,545 |
| **31 December 2017** | 4,140 | 600 | 173,688 | 178,428 |
| **Amortisation** | | | | |
| 1 January 2017 | – | 205 | 13,817 | 14,022 |
| Impairments | – | – | 308 | 308 |
| Charge for the year | – | 60 | 15,491 | 15,551 |
| Disposals | – | – | (6) | (6) |
| Reclassifications | – | – | 322 | 322 |
| **31 December 2017** | – | 265 | 29,932 | 30,197 |
| **Net book value** | 4,140 | 335 | 143,756 | 148,231 |

At 31 December 2017, core banking software with a useful economic life of 20 years had a carrying amount of £8.6 million (2016: £9.4 million).

| 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 |
| Write-offs | – | – | 14 | 14 |
| **31 December 2016** | – | 205 | 13,817 | 14,022 |
| **Net book value** | 4,140 | 395 | 87,980 | 92,515 |

The goodwill held on our 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 (2016: £4.1 million), 100% 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 10.7%. 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 2017-2023 plan, prepared by management and approved by the Board, and used in decision-making. The plan is reviewed and updated annually.

## 12. Intangible assets continued

| Company | 2017 Software £'000 | 2016 Software £'000 |
|---|---|---|
| **Cost** | | |
| 1 January | 100,889 | 56,745 |
| Additions | 68,708 | 44,144 |
| Disposals | (22) | – |
| Write-offs | (30) | – |
| Reclassifications | 1,545 | – |
| **31 December** | 171,090 | 100,889 |
| **Amortisation** | | |
| 1 January | 13,817 | 7,097 |
| Impairments | – | 75 |
| Charge for the year | 15,748 | 6,631 |
| Disposals | (6) | – |
| Reclassifications | 322 | – |
| Write-offs | – | 14 |
| **31 December** | 29,881 | 13,817 |
| **Net book value** | 141,209 | 87,072 |

## 13. Prepayments and accrued income

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Prepayments | 26,546 | 19,103 |
| Accrued income | 21,679 | 15,580 |
| VAT receivable | 3,147 | 7,597 |
| Other | 1,413 | 720 |
| Total prepayments and accrued income | 52,785 | 43,000 |
| Current portion | 52,785 | 43,000 |
| Non-current portion | – | – |

| Company | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Prepayments | 23,747 | 16,508 |
| Accrued income | 21,663 | 15,573 |
| VAT receivable | 3,147 | 7,597 |
| Other | 1,413 | 720 |
| Total prepayments and accrued income | 49,970 | 40,398 |
| Current portion | 49,970 | 40,398 |
| Non-current portion | – | – |

## 14. Other assets

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Assets pledged as collateral | 11,322 | 11,733 |
| Other | 14,921 | 14,558 |
| Total other assets | 26,243 | 26,291 |
| Current portion | 14,612 | 12,905 |
| Non-current portion | 11,631 | 13,386 |

| Company | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Assets pledged as collateral | 11,322 | 11,733 |
| Other | 14,130 | 14,586 |
| Amounts owed by Group undertakings | 215,097 | 143,457 |
| Total other assets | 240,549 | 169,776 |
| Current portion | 228,918 | 156,353 |
| Non-current portion | 11,631 | 13,423 |

## 15. Other liabilities

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Trade creditors | 272 | 2,161 |
| Other taxation and social security costs | 5,348 | 6,522 |
| Accruals | 67,285 | 58,074 |
| Deferred income | 16,007 | 13,120 |
| Other liabilities | 59,358 | 26,207 |
| Total other liabilities | 148,270 | 106,083 |
| Current portion | 138,667 | 96,709 |
| Non-current portion | 9,603 | 9,374 |

| Company | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Trade creditors | 272 | 2,157 |
| Other taxation and social security costs | 5,372 | 6,276 |
| Accruals | 66,742 | 57,895 |
| Deferred income | 15,962 | 13,117 |
| Other liabilities | 54,045 | 21,908 |
| Total other liabilities | 142,393 | 101,353 |
| Current portion | 132,790 | 91,979 |
| Non-current portion | 9,603 | 9,374 |

## 16. Called-up share capital

**Accounting policy** When we issue new shares, incremental directly attributable costs are shown in equity as a deduction from the proceeds.

We only have a single class of shares. As at 31 December 2017 we had 88.5 million ordinary shares of 0.0001p (31 December 2016: 80.3 million) authorised and in issue.

In July 2017, we issued 8.02 million ordinary shares of 0.0001p each, for consideration of £278 million. Related transaction costs of £2.9 million have been deducted from equity during the year.

Additionally, during the year we issued 0.2 million ordinary shares which relate to the exercise of previously awarded share options. These options contributed £892,000 to share premium.

| Group and Company | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Called-up ordinary share capital, issued and fully paid | | |
| At beginning of the year | – | – |
| Issued | – | – |
| At end of the year | – | – |

| Group and Company | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Share premium account | | |
| At beginning of the year | 1,027,645 | 629,304 |
| Issued | 278,785 | 403,572 |
| Costs of shares issued | (2,927) | (5,231) |
| At end of the year | 1,303,503 | 1,027,645 |

## 17. Share options

**Accounting policy** The grant date fair value of options awarded to colleagues is recognised as an expense over the period in which the colleagues become unconditionally entitled to the options. The expense (representing the value of the services received by us) 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 share options granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period. Graded vesting is applied where relevant.

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

We offer options to Directors and colleagues. The exercise price of the granted options is equal to the estimated market price determined at the date of the grant. Options generally vest in equal tranches over five years and have a contractual option term of ten years, with the only vesting condition being the continuing service of the colleague. Options acquired via 'exchange' of some or all of the cash element of a colleague's variable reward vest immediately. All our options are equity settled and we have no legal or constructive obligation to repurchase the shares or settle the options in cash.

### 17. Share options continued

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

| Group | 2017 Number of options '000 | 2017 Weighted average exercise price £ | 2016 Number of options '000 | 2016 Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | **2,907** | **15.04** | 2,571 | 13.70 |
| Granted | **768** | **32.73** | 630 | 20.00 |
| Exercised | **(195)** | **13.94** | (162) | 12.89 |
| Lapsed | **(103)** | **20.37** | (132) | 15.18 |
| Outstanding at 31 December | **3,377** | **18.98** | 2,907 | 15.04 |
| Exercisable at 31 December | **1,694** | **16.19** | 1,276 | 13.76 |

The average share price during 2017 was 3,488p (2016: 2,404p). The number of options outstanding at year end was as follows:

| Exercise price | 2017 Number of options '000 | 2017 Weighted average remaining contractual life years | 2016 Number of options '000 | 2016 Weighted average remaining contractual life years |
|---|---|---|---|---|
| £9.00 | **52** | **3.8** | 75 | 4.8 |
| £10.00 | **145** | **4.8** | 167 | 5.8 |
| £12.00 | **260** | **5.9** | 281 | 6.9 |
| £13.00 | **66** | **6.2** | 82 | 7.2 |
| £13.50 | **650** | **6.8** | 703 | 7.8 |
| £14.00 | **212** | **n/a** | 226 | n/a |
| £16.00 | **713** | **n/a** | 781 | n/a |
| £20.00 | **536** | **8.2** | 592 | 9.3 |
| £32.73 | **743** | **9.2** | – | – |
| Total | **3,377** | **7.6** | 2,907 | 7.8 |

The fair value of the options granted during the year is determined using a Black-Scholes valuation model and was £3.3 million (2016: £1.6 million) and is based on the following assumptions:

| Group | 2017 cash bonus exchange | 2017 share options |
|---|---|---|
| Weighted average risk-free interest rate | 0.16% | 0.20% |
| Weighted average expected life | 2.5 years | 3.25 years |
| Weighted average expected volatility | 24.05% | 22.05% |
| Weighted average expected dividend yield | nil | nil |
| Weighted average share price | £32.73 | £32.73 |
| Weighted average exercise price | £32.73 | £32.73 |

Expected volatility is a measure of the amount by which our shares are expected to fluctuate during the life of an option. The expected volatility is estimated based on a statistical analysis of the historic share prices of other FTSE 350 banks over the most recent period which is commensurate with the expected life of the option. The analysis is based on FTSE 350 banks rather than our own share price due to insufficient available price data, having only been listed since March 2016.

We have no other remuneration related instruments in issue other than these employee share options.

## 18. Reconciliation of movements in retained earnings

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| At 1 January | **(230,193)** | (213,440) |
| Profit/(loss) for the year | **10,789** | (16,753) |
| At 31 December | **(219,404)** | (230,193) |

| Company | 2017 £'000 | 2016 £'000 |
|---|---|---|
| At 1 January | **(235,750)** | (216,594) |
| Profit/(loss) for the year | **8,914** | (19,156) |
| At 31 December | **(226,836)** | (235,750) |

## 19. Financial commitments

At 31 December 2017, we had irrevocable undrawn loan facilities granted to retail and commercial customers of £687.5 million (2016: £382.2 million).

In addition, as part of our retail and commercial operations, we had commitments of £138.3 million (2016: £156.2 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, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

## 20. Leases

| | |
|---|---|
| **Accounting policy** | All of our leases are operating leases. The total payments made under our 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 we are required to make to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. |

### Commitments under leases

We lease 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 £19.6 million (2016: £17.1 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:

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Due | | |
| Within one year | **20,060** | 17,534 |
| Due in one to five years | **80,636** | 71,954 |
| Due in more than five years | **318,582** | 290,574 |
| Total | **419,278** | 380,062 |

### Future income due under non-cancellable operating leases

We lease out surplus space in some of our properties. The balances reflect the cash payments expected over the remaining non-cancellable term of each lease. Of the total below, £12.0 million (2016: £10.1 million) relates to sub-letting of leased stores. During the year, £1.4 million (2016: £631,000) was recognised as rental income in the statement of comprehensive income.

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Receivable | | |
| Within one year | **1,410** | 835 |
| Due in one to five years | **4,212** | 3,115 |
| Due in more than five years | **9,687** | 8,514 |
| Total | **15,309** | 12,464 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 21. Financial instruments

**Accounting policy**

**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.

**Financial liabilities**
Our holdings 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.

**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 is recognised as a separate asset or liability.

Collateral furnished under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because we retain substantively all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

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

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

## 22. Credit risk

| Accounting policy | **Assets carried at amortised cost**<br>We assess 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:<br>• Impairment of individual loans is designed to recognise specific risks identified 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.<br>• 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.<br><br>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.<br><br>When a loan is uncollectable, 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'.<br><br>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.<br><br>**Assets classified as available-for-sale**<br>We assess at each date of the balance sheet 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. |
|---|---|

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

The Chief Risk Officer is responsible for managing our credit risks through the following:
- Defining the enterprise risk management structure and quantifying our 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 us against those assets, please refer to note 9.

Strategic report
Governance
Financial statements

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 22. Credit risk continued

The Group invests in high-quality liquid debt instruments as required by our Securities Trading and Investment policy. The analysis below details the credit rating of the securities as at 31 December 2017 and 31 December 2016. No allowance for impairment or loss was held against any of these assets at 31 December 2017 or 31 December 2016.

| Credit rating | Designated at fair value 2017 £'000 | Designated at fair value 2016 £'000 |
|---|---|---|
| AAA | 3,104,293 | 2,434,852 |
| AA- to AA+ | 506,539 | 458,112 |
| A- to A+ | 134,194 | 141,590 |
| Lower than A- | 169,479 | 192,161 |
| Total | 3,914,505 | 3,226,715 |

We have pledged £4,478.0 million (2016: £2,725.0 million) of assets as encumbered collateral which can be called upon in the event of default. Of this, £2,419.0 million (2016: £2,062.0 million) is made up of high-quality securities and £2,059.0 million (2016: £663.0 million) is from our own loan portfolio prepositioned with the Bank of England to support some of the Term Funding Scheme ('TFS') drawings.

£4,358.0 million (2016: £2,087.0 million) of this encumbered collateral is pledged to the Bank of England through the Bank's participation in the TFS to support the £3,321.0 million (2016: £543.0 million) of cash drawn down. The bank repaid its outstanding Funding for Lending Scheme ('FLS') drawings in November 2017.

The remaining £120.0 million (2016: £638.0 million) is pledged with the Bank of England and market participants in the form of repo.

### Collateral held and other credit enhancements, and their financial effect

We hold collateral against loans and advances to customers principally in the form of mortgages over residential and commercial real estate and guarantees which we have the ability to call on in the event of default of the borrower. The table below details our gross credit risk exposure 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 2017 | Gross exposure £'000 | Collateral £'000 | Net exposure £'000 |
|---|---|---|---|
| Loans and advances to banks | 100,388 | – | 100,388 |
| Loans and advances to customers: | | | |
| – Loans to individuals (note 9) | 6,447,832 | (6,152,994) | 294,838 |
| – Loans to corporate entities (note 9) | 3,186,855 | (2,502,159) | 684,696 |
| Investment securities (note 10) | 3,914,505 | – | 3,914,505 |
| Other assets (note 14) | 26,243 | – | 26,243 |
| Total | 13,675,823 | (8,655,153) | 5,020,670 |

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

| At 31 December 2017 | Gross exposure | Collateral | Net exposure |
|---|---|---|---|
| Loan commitments and other credit-related obligations | 848,561 | – | 848,561 |
| Total | 14,524,384 | (8,655,153) | 5,869,231 |

| At 31 December 2016 | Gross 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 9]) | 3,785,632 | (3,615,433) | 170,199 |
| – Loans to corporate entities (note 9) | 2,087,232 | (1,566,236) | 520,996 |
| Investment securities (note 10) | 3,226,715 | – | 3,226,715 |
| Other assets (note 14) | 26,291 | – | 26,291 |
| Total | 9,191,686 | (5,181,669) | 4,010,017 |

## 22. Credit risk continued

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

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

As shown above, 71% (2016: 65%) of the total maximum exposure is derived from loans and advances to banks and customers; 29% (2016: 35%) represents investments in high-quality debt securities.

### Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to customers by ranges of debt-to-value ('DTV') ratio.

The increase in concentration for the DTV ratio > 80% is due to both the launch of our 90% loan-to-value mortgage product within the year and the acquisition of a portfolio of UK mortgages on 2 June 2017. The portfolio was originated over 10 years ago, has been stressed at significantly higher rates and has a good payment performance.

The average DTV of the residential mortgage loan book is 60% (2016: 58%):

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| **DTV ratio** | | |
| Less than 50% | **1,719,635** | 1,121,993 |
| 51–60% | **1,112,838** | 787,883 |
| 61–70% | **1,425,195** | 847,743 |
| 71–80% | **1,135,959** | 549,732 |
| 81–90% | **667,725** | 206,293 |
| 91–100% | **115,253** | 41,224 |
| More than 100% | **54,810** | 49,723 |
| Total residential mortgage lending | **6,231,415** | 3,604,591 |

A geographic analysis of the location of residential mortgage collateral is set out below:

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| Group | £'000 | % | £'000 | % |
| **Region** | | | | |
| Greater London | **2,899,479** | **47%** | 1,898,594 | 53% |
| South east | **1,395,059** | **22%** | 818,034 | 23% |
| South west | **424,172** | **7%** | 211,321 | 6% |
| East of England | **354,639** | **6%** | 175,409 | 5% |
| North west | **341,335** | **5%** | 136,968 | 4% |
| West Midlands | **214,841** | **3%** | 99,167 | 3% |
| Yorkshire and the Humber | **187,979** | **3%** | 77,575 | 2% |
| East Midlands | **177,366** | **3%** | 85,748 | 2% |
| Wales | **105,223** | **2%** | 45,800 | 1% |
| North east | **77,967** | **1%** | 32,687 | 1% |
| Northern Ireland | **32,018** | **1%** | – | 0% |
| Scotland | **21,337** | **0%** | 23,288 | 0% |
| Total residential mortgage lending | **6,231,415** | **100%** | 3,604,591 | 100% |

### 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 we generally request that corporate borrowers provide it. We usually take collateral in the form of a first charge over real estate (retail and commercial), floating charges over all corporate assets and other liens and guarantees.

## 22. Credit risk continued

### Concentrations of commercial credit risk

We monitor concentrations of credit risk by sector for commercial term loans exposure. Our risk appetite is set at the beginning of every year and monitored as part of the Board Committee.

| Group | 2017 Gross balance £'000 | 2017 Concentration % | 2016 Gross balance £'000 | 2016 Concentration % |
|---|---|---|---|---|
| Real estate (rent, buy and sell) | **1,704,478** | **61%** | 1,064,194 | 57% |
| Legal, accountancy and consultancy | **303,507** | **11%** | 276,164 | 15% |
| Health and social work | **214,271** | **7%** | 177,931 | 10% |
| Hospitality | **185,053** | **7%** | 95,600 | 5% |
| Real estate (management of) | **103,808** | **4%** | 90,240 | 5% |
| Retail | **84,495** | **3%** | 37,009 | 2% |
| Construction | **69,137** | **2%** | 58,204 | 3% |
| Investment and unit trusts | **20,872** | **1%** | 20,448 | 1% |
| Recreation, cultural and sport | **17,823** | **1%** | 8,643 | 0% |
| Real estate (development) | **25,608** | **1%** | 2,036 | 0% |
| Education | **4,270** | **0%** | 1,484 | 0% |
| Other | **83,177** | **2%** | 42,151 | 2% |
| Total commercial term loans | **2,816,499** | **100%** | 1,874,104 | 100% |

The average debt-to-value ('DTV') of the commercial term loan book is 58% (2016: 57%)

| Group | 31 December 2017 £'000 | 31 December 2016 £'000 |
|---|---|---|
| Total commercial lending | **3,186,855** | 2,087,232 |
| Percentage of total lending | **33%** | 36% |
| Value of top ten commercial exposures | **250,109** | 160,239 |
| Top ten commercial exposures as a percentage of total commercial lending | **8%** | 8% |

### Non-performing loans

Our non-performing loan exposure has grown in 2017 driven by the growing maturity of the lending portfolios and is in line with expectations. The cost of risk remains low and stable, this is driven by the collateralisation of the exposure.

| Group | 2017 Non-performing loans £'000 | 2017 Non-performing loans ratio* | 2017 Cost of risk | 2016 Non-performing loans £'000 | 2016 Non-performing loans ratio* | 2016 Cost of risk |
|---|---|---|---|---|---|---|
| **Total** | **26,230** | **0.27%** | **0.11%** | 7,246 | 0.12% | 0.10% |

* 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 2017, the exposure from forbearance arrangements was £11.1 million (31 December 2016: £9.6 million). All forborne loans are classified within the portfolio impaired balance within note 9.

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:

- 79% (2016: 75%) of the debt securities are AAA rated and 13% (2016: 14%) are AA rated;
- 91% (2016: 88%) of loans and advances to customers are backed by collateral; and
- Over 99% (2016: 99%) of the loans and advances portfolio are considered to be unimpaired.

## 23. Liquidity risk

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

Our Board of Directors set our 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'). Our Treasury function manages the liquidity position on a day-to-day basis under the oversight of the CFO, CRO and ALCO. Our approach is to ensure that we can meet payments as they fall due – both in normal conditions and in the event of a severe liquidity stress, and that we can survive a severe liquidity stress event and continue as a going concern. The key elements of our 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 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 our 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 our operations and liquidity needs because of the stable deposit nature of our business model.

While we have drawn down £3,321 million of borrowings from the Bank of England's Term Funding Scheme ('TFS'), our business model is primarily that of a deposit-led bank – with more deposits than loans. Given our deposit-led business model, we do not consider that the closure of the TFS drawdown window in 2018 will adversely affect us from the perspective of obtaining funding in the near term, nor refinancing TFS drawings in the long term. We fund our lending growth and plan to refinance our TFS drawings through deposit growth.

The tables below set out the maturity structure of our 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.

| Group | 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 2017** | | | | | | | | |
| Cash and balances with the Bank of England | 2,070,398 | – | – | – | – | – | – | 2,070,398 |
| Loans and advances to banks | 100,388 | – | – | – | – | – | – | 100,388 |
| Loans and advances to customers | – | 188,444 | 172,798 | 353,233 | 2,720,247 | 10,457,731 | 295,051 | 14,187,504 |
| Investment securities | – | 55,993 | 61,854 | 458,934 | 2,990,132 | 611,297 | – | 4,178,210 |
| **Total financial assets** | 2,170,786 | 244,437 | 234,652 | 812,167 | 5,710,379 | 11,069,028 | 295,051 | 20,536,500 |
| **Other assets** | – | 116,080 | 152 | 343 | 53,491 | 4,840 | 2,004 | 176,910 |
| **Total assets** | 2,170,786 | 360,517 | 234,804 | 812,510 | 5,763,870 | 11,073,868 | 297,055 | 20,713,410 |
| Deposits from customers | (8,437,216) | (564,803) | (389,139) | (1,128,987) | (597,995) | – | (580,926) | (11,699,066) |
| Deposits from central banks | – | (32,159) | (417) | (888) | (91,831) | – | – | (125,295) |
| Repurchase agreements | – | (3,492) | (3,594) | (9,479) | (3,395,886) | – | – | (3,412,451) |
| Other liabilities | (640) | (116,368) | (110) | (470) | (53,713) | (4,890) | – | (176,191) |
| **Total financial liabilities** | (8,437,856) | (716,822) | (393,260) | (1,139,824) | (4,139,425) | (4,890) | (580,926) | (15,413,003) |
| Capital | – | – | – | – | – | – | – | – |
| **Total liabilities** | (8,437,856) | (716,822) | (393,260) | (1,139,824) | (4,139,425) | (4,890) | (580,926) | (15,413,003) |
| **Cumulative liquidity gap** | (6,267,070) | (6,623,375) | (6,781,831) | (7,109,145) | (5,484,700) | 5,584,278 | | |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 23. Liquidity risk continued

| Group | 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 | 463,382 | – | – | – | – | – | – | 463,382 |
| Loans and advances to banks | 65,816 | – | – | – | – | – | – | 65,816 |
| Loans and advances to customers | – | 126,785 | 128,610 | 237,330 | 1,757,258 | 6,443,358 | 167,819 | 8,861,160 |
| Investment securities | – | 181,312 | 112,500 | 364,875 | 1,620,266 | 239,027 | – | 2,517,980 |
| **Total financial assets** | 529,198 | 308,097 | 241,110 | 602,205 | 3,377,524 | 6,682,385 | 167,819 | 11,908,338 |
| **Other assets** | – | 37,472 | 82 | 171 | 1,423 | 5,222 | 25,448 | 69,818 |
| **Total assets** | 529,198 | 345,569 | 241,192 | 602,376 | 3,378,947 | 6,687,607 | 193,267 | 11,978,156 |
| Deposits from customers | (5,607,783) | (447,531) | (478,515) | (651,664) | (626,563) | – | (171,774) | (7,938,830) |
| Deposits from central banks | – | (211,946) | (320,990) | (932) | (125,208) | – | – | (659,076) |
| Repurchase agreements | – | (299) | (544) | (1,235) | (554,424) | – | – | (556,502) |
| Other liabilities | (618) | – | – | – | – | – | – | (618) |
| **Total financial liabilities** | (5,608,401) | (659,776) | (800,049) | (653,831) | (1,306,195) | – | (171,774) | (9,200,026) |
| Capital | – | – | – | – | – | – | – | – |
| **Total liabilities** | (5,608,401) | (659,776) | (800,049) | (653,831) | (1,306,195) | – | (171,774) | (9,200,026) |
| **Cumulative liquidity gap** | (5,079,203) | (5,393,410) | (5,952,267) | (6,003,722) | (3,930,970) | 2,756,637 | | |

## 24. Market risk

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

### Interest rate risk

We manage this risk within a risk appetite framework that is set and approved by the Board.

Limits are set for the economic value of equity ('EVE') and net interest income ('NII'). EVE shall not drop more than £20 million based on the worse of a +200bp or -200bp instantaneous symmetrical parallel shock to interest rates, and one-year NII shall not drop more than £15 million based on the same shock. The EVE limits are monitored daily by risk, whilst NII limits are monitored weekly. Performance against limits are reported monthly to the ALCO (with exceptions communicated by email) and more regularly to senior management, as well as being noted by the Risk Oversight Committee and the Board.

Furthermore, a £15 million limit is set for a set of asymmetrical movements between LIBOR and the Bank of England Base Rate. Our Treasury Risk function runs a series of other interest rate risk simulations on a monthly basis to ensure that the ALCO is kept apprised of any other risks not captured by the policy measures.

While we occasionally enter into hedging arrangements the impact of these arrangements is immaterial.

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

| 31 December 2017 | 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 and advances to banks | – | – | – | – | – | 100,388 | 100,388 |
| Loans and advances to customers | 4,173,131 | 343,562 | 753,097 | 4,310,713 | 36,898 | 2,925 | 9,620,326 |
| Other assets | 5,586,676 | 41,750 | 136,687 | 477,737 | – | 391,791 | 6,634,641 |
| **Total assets** | 9,759,807 | 385,312 | 889,784 | 4,788,450 | 36,898 | 495,104 | 16,355,355 |
| Deposits from customers | (5,853,202) | (595,959) | (1,124,130) | (608,532) | – | (3,486,915) | (11,668,738) |
| Other liabilities | (3,558,740) | (355) | (715) | (52,224) | (4,742) | 26,048 | (3,590,728) |
| Shareholders' funds | – | – | – | – | – | (1,095,889) | (1,095,889) |
| Total liabilities | (9,411,942) | (596,314) | (1,124,845) | (660,756) | (4,742) | (4,556,756) | (16,355,355) |
| Interest rate sensitivity gap | 347,865 | (211,002) | (235,061) | 4,127,694 | 32,156 | (4,061,652) | – |
| Cumulative gap | 347,865 | 136,863 | (98,198) | 4,029,496 | 4,061,652 | – | – |

| 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 and advances to banks | – | – | – | – | – | 65,816 | 65,816 |
| Loans and advances 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 | – | – |

## 24. Market risk continued

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.

The below shows the sensitivity of projected net interest income to a +2.00% and -2.00% parallel interest rate shock for a one-year forecasting period.

| 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 2017** | **(7,576)** | **7,051** |
| At 31 December 2016 | (3,244) | 2,460 |

## 25. Fair value of financial instruments

| | |
|---|---|
| **Accounting policy** | **Amortised cost measurement and determination of fair value**<br>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.<br>'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 we have access at that date. The fair value of a liability reflects its non-performance risk.<br>For financial instruments traded in active markets, we determine the fair value based on quoted market prices or dealer price quotations. This includes quoted debt instruments on major exchanges and broker quotes.<br>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. |

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.

## 25. Fair value of financial instruments continued

| Group | 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 2017** | | | | | |
| **Assets** | | | | | |
| Cash and balances with the Bank of England | **2,111,630** | **–** | **–** | **2,111,630** | **2,111,630** |
| Loans and advances to banks | **100,388** | **–** | **–** | **100,388** | **100,388** |
| Loans and advances to customers | **9,620,326** | **–** | **–** | **10,084,203** | **10,084,203** |
| Investment securities | **3,914,505** | **922,006** | **3,029,048** | **–** | **3,951,054** |
| **Liabilities** | | | | | |
| Deposits from customers | **11,668,738** | **–** | **–** | **11,650,419** | **11,650,419** |
| Deposits from central banks | **3,320,900** | **–** | **–** | **3,320,900** | **3,320,900** |
| Repurchase agreements | **121,558** | **–** | **–** | **121,558** | **121,558** |
| **31 December 2016** | | | | | |
| **Assets** | | | | | |
| Cash and balances with the Bank of England | 434,612 | – | – | 434,612 | 434,612 |
| Loans and advances to banks | 65,816 | – | – | 65,816 | 65,816 |
| Loans 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 | 653,091 |

For 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 in the above table.

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.

## 26. Related parties

### Key management personnel

Our 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:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Short-term benefits | 4,817 | 3,891 |
| Share-based payment costs | 2,388 | 4,108 |
| Total compensation for key management personnel | 7,205 | 7,999 |

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 listing awards awarded in previous years. The cost includes the in-year IFRS 2 costs for Listing 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

We provide 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 were as follows:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| **Loans payable to the Group** | | |
| Loans outstanding at 1 January | 3,191 | 2,529 |
| Loans relating to former key management personnel | – | (529) |
| Loans relating to persons and companies no longer considered related parties | (321) | – |
| Loans outstanding at 1 January for current key management personnel | 2,870 | 2,000 |
| Loans issued during the year | 349 | 1,250 |
| Loan repayments during the year | (262) | (59) |
| Loans outstanding at 31 December | 2,957 | 3,191 |
| Interest expense on loans payable to the Group | 80 | 82 |

There were seven (31 December 2016: nine) loans outstanding at 31 December 2017 totalling £3.0 million (31 December 2016: £3.2 million). Of these, six are residential mortgages secure on property and one is an unsecured loan; all loans were provided on normal commercial terms which can be found on our website (www.metrobankonline.co.uk).

In addition to the loans detailed above, the bank has issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel. At 31 December 2017 there was only one overdrawn current account (£296) to Directors and key management personnel and all outstanding credit card balances were repaid in January 2017.

Credit card balances outstanding at 31 December were as follows:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Credit cards outstanding at 31 December | 27 | 10 |

Deposit balances outstanding at 31 December were as follows:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Deposits outstanding at 1 January | 5,193 | 4,544 |
| Deposits relating to persons and companies no longer considered related parties | (2,967) | – |
| Deposits relating to new key management personnel | 44 | – |
| Net amounts deposited | 1,163 | 649 |
| Deposits outstanding at 31 December | 3,433 | 5,193 |

## 26. Related parties continued

### Other transactions with related parties

The following transactions were carried out with related parties:

| Group | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Architectural design services | 4,135 | 2,635 |
| Branding, marketing and advertising | 513 | 521 |
| Total purchase of services with entities connected to key management personnel | 4,648 | 3,156 |
| Amounts outstanding as at 31 December owed by Metro Bank | 23 | 382 |

Architecture, design and branding services are provided 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 our Audit Committee using benchmarking reviews conducted by independent third parties. The Audit Committee has concluded that contracts for services with InterArch are at arm's length and are at least as beneficial as those which could be obtained in the market from an alternative supplier.

### Architectural design services

InterArch provide various architectural design services, 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 contract for architectural design services has recently been renegotiated and the Audit Committee has taken steps to ensure that it continues to be at arm's length as part of the renegotiation process.

### Branding, marketing and advertising

InterArch also provide branding, marketing and advertising services. The agreement terminated on 31 December 2017 and a new agreement was signed in January 2018 covering the period up to 31 December 2018.

## 27. Capital management

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

We prepare an annual Internal Capital Adequacy Assessment Process document that sets out how we identify and manage the key risks to which we are exposed and details our capital requirements, capital resources and capital adequacy over the planning period.

We produce 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.

We manage 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. We are committed to maintaining a strong capital base under both existing and future regulatory requirements. During the year we complied with all externally imposed capital requirements to which we are subject.

| Tier 1 capital | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Ordinary share capital | – | – |
| Share premium | 1,303,503 | 1,027,645 |
| Retained earnings | (219,404) | (230,193) |
| Intangible assets | (148,231) | (92,515) |
| Deferred tax asset (CET1 element) | (56,936) | (60,625) |
| Deferred tax liability (CET1 element) | 6,167 | – |
| Other reserves | 11,790 | 7,083 |
| **Total regulatory capital** | 896,889 | 651,395 |

## 28. Earnings per share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year.

| | 2017 | 2016 |
|---|---|---|
| Earnings/(loss) attributable to ordinary equity holders of Metro Bank | 10,789 | (16,753) |
| Weighted average number of ordinary shares in issue – basic ('000) | 84,412 | 76,791 |
| **Basic earnings/(loss) per share (pence)** | 12.8 | (22.0) |

Diluted earnings/(loss) per share has been calculated based on the same profit or loss attributable to ordinary equity holders of Metro Bank and 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 are treated as dilutive when their conversion to ordinary shares results in a reduction in earnings per share. As Metro Bank had a loss attributable to ordinary equity holders of Metro Bank in 2016, for this year the share options would be anti-dilutive as they would reduce the loss per share. Therefore, they are disregarded in the calculation of dilutive earnings per share. At 31 December 2017 all outstanding share options were considered dilutive. Further details of our share options can be found in note 17.

| | 2017 | 2016 |
|---|---|---|
| Earnings/(loss) attributable to ordinary equity holders of Metro Bank | 10,789 | (16,753) |
| Weighted average number of ordinary shares in issue – diluted ('000) | 85,927 | 76,791 |
| **Diluted earnings/(loss) per share (pence)** | 12.6 | (22.0) |

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

## 29. Investment in subsidiary undertakings

| | |
|---|---|
| **Accounting policy** | We apply 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. All subsidiaries follow the same accounting policies as the Group. |

The Group had the following subsidiaries at 31 December 2017:

| 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

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Interest on inter-Company loan with SME Asset/Invoice Finance | 4,083 | 2,749 |
| Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance | 215,097 | 143,457 |

Details of the registered offices of all our Group companies can be found on page 137.

## 30. IFRS 9 transitional disclosures

### Adoption of IFRS 9

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces IAS 39, Financial Instruments: Recognition and Measurement.

We have adopted IFRS 9 with a date of transition of 1 January 2018. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

IFRS 9 sets out new accounting requirements in respect of: classification and measurement of financial instruments, credit impairment and hedge accounting. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Group's equity at 1 January 2018 is c.£12.1 million, representing:

- A decrease of c.£22.7 million relating to impairment requirements
- An increase of c.£6.8 million relating to classification and measurement requirements
- An increase of c.£3.8 million relating to deferred tax impacts.

The above assessment is preliminary and our transition work will be finalised during 2018. The actual impact of adopting IFRS 9 on 1 January 2018 may change as we refine and finalise our expected credit loss ('ECL') and related deferred tax calculations.

### Classification and measurement of financial instruments

*Financial assets*

IFRS 9 defines three new measurement categories:

- Measured at amortised cost
- Measured at fair value through other comprehensive income ('FVOCI')
- Measured at fair value through profit or loss ('FVPL')

IFRS 9 applies one classification approach for all types of financial assets, including customer lending and treasury assets. Two criteria are used to determine how financial assets should be classified and measured:

(a) **Business model:** how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include, for example, past experience on how the cash flows for these assets were collected, how their performance is assessed and how their managers have compensated; and

(b) **SPPI test:** whether contractual cash flows are consistent with a basic lending arrangement; that is whether cash flows solely comprise payments of principal and interest ('SPPI').

If assets pass the SPPI test, and are within a business model that holds to collect contractual cash flows, they are measured at amortised cost. If assets pass the SPPI test, and are within a business model that holds to collect contractual cash flows and for sale, they are measured at FVOCI. If an asset does not meet the criteria for amortised cost of FVOCI, it is measured at FVPL.

Under IFRS 9, assets will only move between categories if there is a significant change to the business model within which they are held; this is expected to be infrequent.

*Financial liabilities*

All financial liabilities are classified and subsequently measured at amortised cost, except for those designated at fair value through profit or loss at initial recognition. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

*Impairment*

Under IFRS 9, we assess on a forward-looking basis the expected credit losses ('ECL') associated with the assets carried at amortised cost and FVOCI and recognises a loss allowance for such losses at each reporting date.

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

*Loans and advances*

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages. Expected credit losses must be calculated for drawn loans, and for committed lending.

### 30. IFRS 9 transitional disclosures continued

In general terms, the ECL for a loan is calculated using the following formula:
**ECL = Probability of default x Loss given default x Exposure at default**

Key model inputs and judgements include:
- Consideration of when a significant increase in credit risk occurs
- Probability of default, loss given default, and exposure at default
- Macro economic scenarios to be applied

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

| Stage | Description | ECL recognised |
|---|---|---|
| **Stage 1 – performing loans** | Financial instruments that have had **no significant increase in credit risk** since initial recognition or that have low credit risk at the reporting date.<br>For example: a newly originated loan on which repayments are being received and there are no other indicators of a significant increase in credit risk. | **12-month expected credit losses**<br>Losses expected on defaults which may occur within the next 12 months. |
| **Stage 2 – underperforming loans** | Financial instruments that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment.<br>For example: a loan on which payment is 30 days overdue. | **Lifetime expected credit losses**<br>Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macro-economic scenarios. |
| **Stage 3 – non-performing loans** | Financial assets that have **objective evidence of impairment** at the reporting date.<br>For example: a loan on which payment is 90 days overdue or the relationship manager has identified significant stress which indicates an unwillingness to pay. | **Lifetime expected credit losses**<br>Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macro-economic scenarios.<br>Interest income is calculated on the carrying amount of the loan net of credit allowance. |

A significant increase in credit risk may be identified in a number of ways:
- Qualitative criteria – for example, the borrower is included on the early warning list, or there are clear signs that the customer is unwilling to pay.
- Quantitative criteria – for example, where payments are at least 30 days overdue, or the numerically calculated probability of default on a loan has increased significantly since initial recognition, for example due to a movement in the customer's credit score. This is assessed using detailed models.

A loan will be considered to be 'non-performing' when it meets the Group's definition of default – e.g. the loan is 90 days past due, or the borrower is considered unlikely to pay.

***Probability of default***

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A probability of default is calculated for all loans based on historic data and incorporates, but is not limited to:
- Credit quality scores
- Lifecycle trends depending on a loan's vintage
- Factors indicating the quality of the vintage
- Characteristics of the current and future economic environment

The probability of default is adjusted for the weighted average outcome of three macro-economic scenarios: baseline, upside and downside.

### 30. IFRS 9 transitional disclosures continued

*Loss given default*

The loss given default ('LGD') represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates – one for unsecured lending and one for secured lending.

- LGD rates have been modelled considering a range of inputs, including: value of collateral on secured portfolios – a key driver of the expected recovery in the event of default
- Expected haircut applied to the collateral value to reflect a forced sale discount
- Expected exposure on a loan at the point of default – models consider a number of factors including the pay down rates on loans
- Price index forecasts applied to project collateral values into the future
- Stress factors based on macro-economic scenarios

*Exposure at default*

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

- Interest should be accrued
- Repayments may be received on mortgages
- For a revolving product, further drawings may be taken between the current point in time and the point of default

*Investment securities and other financial assets*

Impairment provisions have been calculated based on our best estimate of expected credit losses on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. Impairment provisions are not material.

*Hedge accounting*

The new requirements under IFRS 9 align hedge accounting more closely with risk management. The revised standard also establishes a more principles-based approach to hedge accounting. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. Hedge accounting is not currently material for us and we have elected to continue applying the requirements of IAS 39.

*IFRS 9 governance*

Responsibility for initial approval of all impairment models has been assigned to a Model Governance Committee. The Credit Risk, Policy and Appetite Committee is responsible for review of credit impairment models, including model design and outcomes. The Audit Committee is responsible for review and approval of accounting policy.

*Impact on adoption*

The measurement category and the carrying amount of financial assets and liabilities as at 31 December 2017 in accordance with IAS 39 and IFRS 9 are compared as follows.

| | IAS 39 | | IFRS 9 | |
|---|---|---|---|---|
| Class of financial asset or liability | Measurement category | Carrying amount £'000 | Measurement category | Carrying amount £'000 |
| **Financial assets** | | | | |
| Cash and balances with central banks | Loans and receivables | £2,111,630 | Amortised cost | £2,111,610 |
| Loans and advances to banks | Loans and receivables | £100,388 | Amortised cost | £100,388 |
| Loans and advances to customers | Loans and receivables | £9,620,326 | Amortised cost | £9,598,303 |
| Investment securities | Held to maturity | £3,553,801 | Amortised cost | £3,223,188 |
| | Available for sale | £360,704 | FVOCI | £697,451 |
| **Financial liabilities** | | | | |
| Deposits from banks | Financial liabilities at amortised cost | £11,668,738 | Amortised cost | £11,668,738 |
| Deposits from customers | Financial liabilities at amortised cost | £3,320,900 | Amortised cost | £3,320,900 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 30. IFRS 9 transitional disclosures continued

We have applied the classification requirements in IFRS 9 after performing a detailed analysis of its business models for managing financial assets. The Group has considered whether financial assets are held for the collection of principal and interest payments, or whether cash flows are expected to be collected from their sale, as well as how the performance of such financial assets is assessed.

The application of the new classification requirements of IFRS 9 led to changes in the classification of certain investment securities held by the Bank. £332 million fixed rate securities classified as held to maturity under IAS 39 have been classified as FVOCI under IFRS 9. Going forward, this pool of assets will be held to collect cash flows and to sell if required in order to effectively manage our interest rate risk, therefore it has been classified as FVOCI. Had IAS 39 remained in force, we would have maintained our intention and ability to hold these assets to maturity, and we would have sought other methods to manage our interest rate risk.

### Reconciliation of balance sheet balances from IAS 39 to IFRS 9

The following table reconciles the carrying amount of financial assets and liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

*Financial assets measured at amortised cost under IFRS 9*

| £'000 | Cash and balances with central banks (IAS 39: Loans and receivables) | Loans and advances to banks (IAS 39: Loans and receivables) | Loans and advances to customers (IAS 39: Loans and receivables) | Investment securities (IAS 39: Held to maturity) | Total |
|---|---|---|---|---|---|
| **Carrying value under IAS 39 – amortised cost** | **2,111,630** | **100,388** | **9,620,326** | **3,553,801** | **15,386,144** |
| Transfer to FVOCI | | | | | |
| – Carrying amount transferred | – | – | – | (332,326) | (332,326) |
| Remeasurement of amortised cost | – | – | – | 2,089 | 2,089 |
| Remeasurement of impairment allowance | (20) | – | (22,023) | (376) | (22,419) |
| **Carrying value under IFRS 9 – amortised cost** | **2,111,610** | **100,388** | **9,598,303** | **3,223,188** | **15,033,488** |

Remeasurement of amortised cost – this relates to assets which were initially classified as available for sale under IAS 39. They were subsequently transferred to the held to maturity category, with the carrying value at the point of transfer being equal to the fair value. This adjustment restates the carrying value of these assets to reflect the appropriate amortised cost as if the assets had always been measured at amortised cost.

The total amount of remeasurement of £14.8 million was adjusted to change to equity on 1 January 2018. A corresponding increase in deferred tax assets of approximately £3.5 million was also adjusted through change to equity on 1 January 2018.

*Financial assets measured at FVOCI under IFRS 9*

| £'000 | Investment securities (IAS39: Available for sale) | Total |
|---|---|---|
| **Carrying value under IAS 39 – FVOCI** | **360,704** | **360,704** |
| Transfer from amortised cost | | |
| – Carrying amount transferred | 332,326 | 332,326 |
| – Remeasurment from amortised cost to fair value | 4,678 | 4,678 |
| Remeasurement of impairment allowance | (257) | (257) |
| **Carrying value under IFRS 9 – FVOCI** | **697,451** | **697,451** |

The total amount of remeasurement of £4.4 million was adjusted to change to equity on 1 January 2018. A corresponding decrease in deferred tax assets of approximately £1.1 million was also adjusted through change to equity on 1 January 2018.

### 30. IFRS 9 transitional disclosures continued

**Reconciliation of impairment allowance balance from IAS 39 to IFRS 9**

The following table reconciles the previous impairment allowance measured in accordance with the IAS 39 incurred loss model and the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

| Measurement category (IAS 39/IFRS 9) | Loan loss allowance under IAS 39/Provision under IAS 37 | Reclassification | Remeasurement | Loan loss allowance under IFRS 9 |
|---|---|---|---|---|
| Loans and receivables/Financial assets at amortised cost | 14,361 | – | 22,399 | 36,760 |
| Available-for-sale financial instruments/Financial assets at FVOCI | – | – | 257 | 257 |
| **Total** | 14,361 | – | 22,656 | 37,017 |

The increase in loss allowance estimated under IFRS 9 when compared to that measured under IAS 39 is primarily due to earlier recognition of credit losses under the new expected loss model. The most significant impact has been observed in relation to our unsecured lending portfolios, a number of which are no longer being originated. We continue to refine, monitor and validate certain elements of the impairment models underpinning the estimates provided above. We expect some additional volatility in impairment charges under IFRS 9 when compared to the current IAS 39 impairment model due to the forward looking nature of expected credit losses.

The European Banking Authority has amended the Capital Requirements Regulation to establish IFRS 9 related transitional arrangements. On adoption of IFRS 9, movements in the opening impairment provision will be posted as an adjustment to reserves, and therefore to capital. The transitional arrangement enables firms to 'add back' a portion of this capital adjustment in early years, thereby reducing the initial impact on capital. Add-back adjustments are also allowable for movements in provisions in subsequent years. Metro Bank has elected to adopt the transitional arrangements.

### 31. Post balance sheet events

On 23 February 2018, we announced the intention to purchase a portfolio of residential mortgages for £523 million. The purchase is expected to complete in March 2018.

# ADDITIONAL FINANCIAL REPORTING

## 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 and its subsidiaries only operate with the United Kingdom ("UK") and are all UK registered entities. The Parent Company, Metro Bank, is a credit institution for the purposes of CRD IV and is therefore within the scope of CBCR. Our activities are disclosed within note 1 to the financial statements.

For the purposes of CBCR, the appropriate disclosures required are summarised below:

| | UK |
|---|---|
| Number of employees (average full-time equivalent) | 2,831 |
| Turnover (£'000) | 293,752 |
| Profit before tax (£'000) | 18,675 |
| Income tax credit (£'000) | (7,886) |
| Corporation tax paid (£'000) | 881 |

No public subsidies were received during the year.

# INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF METRO BANK PLC ON COUNTRY-BY-COUNTRY INFORMATION

We have audited the country by country information in the relevant note to the financial statements of Metro Bank PLC for the year ended 31 December 2017 ("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 auditor considers 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 2017 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 relevant note to the schedule, which describes the basis of preparation. 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
1 March 2018

# ALTERNATIVE PERFORMANCE MEASURES

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles ('GAAP') under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which are commonly used within the banking industry.

These alternative performance measures have been defined below:

**Cost of risk**

Impairment charges net of debt recoveries divided by simple average gross loans for the year.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Credit impairment charges | 8,223 | 4,706 |
| Average gross lending | 7,587,101 | 4,657,507 |
| **Cost of risk** | **0.11%** | 0.10% |

**Cost of deposits**

Interest expense (excluding interest on FLS, TFS and repos) divided by the average deposits from customers for the year.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Interest expense | 60,694 | 59,246 |
| Interest on FLS, TFS and repos | (8,095) | (7,282) |
| Customer interest expense | 52,599 | 51,964 |
| Average deposits from customers | 9,784,616 | 6,564,225 |
| **Cost of deposits** | **0.54%** | 0.79% |

**Loan-to-deposit ratio**

Loans and advances to customers expressed as a percentage of total deposits. It is a commonly used ratio within the banking industry to assess liquidity.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Loans and advances to customers | 9,620,326 | 5,865,370 |
| Deposits from customers | 11,668,738 | 7,950,579 |
| **Loan-to-deposit ratio** | **82%** | 74% |

**Net interest margin ('NIM')**

Net interest income as a percentage of average interest-earning assets.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Net interest income | 240,982 | 154,240 |
| Average interest-earning assets | 12,466,407 | 7,844,048 |
| **Net interest margin ('NIM')** | **1.93%** | 1.97% |

**Customer deposit net interest margin ('Customer NIM')**

Reflecting the interest return from the investment of our customer deposits.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Net interest income | **240,982** | 154,240 |
| Adjustments for customer net interest income: | | |
| Plus interest expense on Term Funding Scheme ('TFS') | **5,437** | 187 |
| Plus interest expense on repurchase agreements | **1,554** | 4,900 |
| Less interest income on investment securities | **(56,873)** | (46,528) |
| Plus return on deposits not lent* | **23,669** | 27,019 |
| Net customer interest income | **214,769** | 139,818 |
| Average deposits from customers | **9,784,616** | 6,564,225 |
| **Customer net interest margin ('Customer NIM')** | **2.19%** | 2.13% |

* Calculated as treasury liquidity yield x (average customer deposits less average loans)

**Underlying profit/(loss) before tax**

Underlying profit/(loss) before tax represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons in order to provide readers with a better and more relevant understanding of the underlying trends in the business. A reconciliation from statutory profit/(loss) before tax to underlying profit/(loss) before tax is set out below.

Where underlying profit/(loss) before tax is reported for a quarter, the underlying profit/(loss) before tax also excludes the impact of the FSCS levy due to the timings of this charge.

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Statutory profit/(loss) before tax | **18,675** | (17,198) |
| Add back: | | |
| Costs associated with listing | **–** | 1,841 |
| Listing Share Awards | **1,376** | 3,296 |
| Costs relating to RBS alternative remedies package application | **129** | – |
| Impairment of property, plant and equipment and intangible assets | **639** | 315 |
| **Underlying profit/(loss) before tax** | **20,819** | (11,746) |

**Underlying earnings per share (basic and diluted)**

Underlying profit/(loss) divided by the weighted average number of basic/diluted shareholders as disclosed in note 28.

We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.

# GLOSSARY

| | |
|---|---|
| **Application programming interface ('API')** | The protocols, routines, functions and/or commands that programmers use to develop software or facilitate interaction between distinct systems. |
| **Common equity tier 1 capital ('CET1')** | The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments. A breakdown of our CET1 capital can be found in note 27. |
| **Debt-to-value ratio ('DTV')** | The ratio of the gross outstanding amount to the indexed value of the collateral. The last indexing was performed in H1 2017. The gross amounts exclude any impairment allowance. |
| **Encumbered assets** | Assets recognised on the balance sheet which have been pledged as collateral against an existing liability, and as a result are assets which are unavailable for us to secure funding or be sold to reduce potential future funding requirements. |
| **Forbearance** | Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties. |
| **Internal Capital Adequacy Assessment Process ('ICAAP')** | Our own assessment, based on Basel II requirements, of the levels of capital that we need to hold in respect of our regulatory capital requirements. |
| **Internal Ratings-Based approach ('IRB')** | A methodology of estimating the credit risk within a portfolio by utilising internal risk parameters to calculate credit risk regulatory capital requirements. There are two approaches to IRB: Foundation IRB and Advanced IRB. |
| **Loss given default ('LGD')** | The estimated loss which will arise if a customer defaults. |
| **Net Promoter Score ('NPS')** | A standard loyalty metric which is calculated based on customers providing a rating on a 0 to 10 scale. Those who respond with a score of 9 to 10 are labelled 'promoters', 0 to 6 labelled 'detractors' and 7 or 8 labelled 'passives'. The NPS is then calculated by taking the percentage of respondents classified as detractors away from those identified as promoters.<br><br>NPS can be as low as –100 (everybody is a detractor) or as high as +100 (everybody is a promoter). |
| **Partially Exemption Special Method ('PESM')** | A special method is a calculation agreed with HMRC which is different to their standard method. It enables us to calculate how much input value added tax ("VAT") we may recover. |
| **Regulatory leverage ratio** | The ratio of our common equity tier 1 capital (see above) compared to our total assets. |
| **Risk weighted assets ('RWA')** | A measure of our assets adjusted for their associated risk. Risk weightings are applied in accordance with the Basel Capital Accord as implemented by the Prudential Regulation Authority ('PRA') |
| **Term funding scheme ('TFS')** | A scheme implemented by the Bank of England which provides funding to banks and building societies at rates close to Base Rate. It is designed to encourage lenders to reflect cuts in Base Rate in the interest rates faced by households and businesses. |

# 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 from 8.30 to 5.30pm (UK time) Monday to Friday, excluding public holidays in England and Wales.

## 2018 Financial Calendar

Annual General Meeting – 24 April 2018
First quarter results – 25 April 2018
Half year results – 25 July 2018
Third quarter results – 24 October 2018

## 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 24 April 2018 at the Bank's registered office address at One Southampton Row, London WC1B 5HA, at 2:00pm. 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.

## Foreward looking statements

This annual report contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as 'believes', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'may', 'will', 'would', 'could' or 'should' or similar terminology. Any forward-looking statements in this annual report are based on the Company's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance.

No assurances can be given that the forward-looking statements in this annual report will be realised. The Company undertakes no obligation to release the results of any revisions to any forward-looking statements in this annual report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and the Company disclaims any such obligation.

# SHAREHOLDER INFORMATION CONTINUED

## Shareholder profile by size of holding as at 31 December 2017

| Range | Total number of holdings | Percentage of holders | Total number of shares held at 31 December 2017 | Percentage of total |
|---|---|---|---|---|
| 1–1,000 | 156 | 31.14% | 50,718 | 0.06% |
| 1,001–5,000 | 95 | 18.96% | 238,816 | 0.27% |
| 5,001–10,000 | 50 | 9.98% | 379,701 | 0.43% |
| 10,001–50,000 | 108 | 21.56% | 2,461,591 | 2.78% |
| 50,001–100,000 | 25 | 4.99% | 1,834,821 | 2.07% |
| 100,001–500,000 | 42 | 8.38% | 8,473,487 | 9.58% |
| 500,001–1,000,000 | 10 | 2.00% | 7,092,387 | 8.02% |
| 1,000,001 and above | 15 | 2.99% | 67,944,327 | 76.79% |
| **Totals** | **501** | **100.00%** | **88,475,848** | **100.00%** |

## Shareholder profile by category as at 31 December 2017

| Category | Number of holders | Percentage of holders within type | Shares held at 31 December 2017 | Percentage of issued share capital |
|---|---|---|---|---|
| Private shareholders | 133 | 26.55% | 5,073,742 | 5.74% |
| Banks | 3 | 0.60% | 12,772 | 0.01% |
| Nominees and other institutional investors | 365 | 72.85% | 83,389,334 | 94.25% |
| **Totals** | **501** | **100.00%** | **88,475,848** | **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.

# NOTES

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