ELECTRONIC TRANSMISSION DISCLAIMER

STRICTLY NOT TO BE FORWARDED TO ANY OTHER PERSONS

IMPORTANT: You must read the following disclaimer before reading, accessing, or making any other use of the attached document. The following disclaimer applies to the attached prospectus (the "**Prospectus**") issued by Metro Bank PLC (the "**Issuer**"), whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

You acknowledge that this electronic transmission and the delivery of the Prospectus is confidential and intended only for you and you agree you will not forward, reproduce, copy, download or publish this electronic transmission or the Prospectus (electronically or otherwise) to any other person. The Prospectus has been prepared solely in connection with the placing (the "Placing") of 75,000,000 new ordinary shares of 0.0001 pence each (the "New Shares") in the capital of the Issuer and admission of the New Shares to the premium listing segment of the Official List of the UK Financial Conduct Authority (the "FCA") and to trading on London Stock Exchange plc's main market for listed securities.

The Prospectus has been approved by the FCA in accordance with section 85 of the Financial Services and Markets Act 2000, and is available to the public and has been filed with the FCA in accordance with the Listing Rules and Prospectus Rules made by the FCA under section 73A of the Financial Services and Market Act 2000, as amended. The Prospectus together with the documents incorporated into it by reference (as set out in Part XII "*Information Incorporated by Reference*" of the Prospectus) are available to the public in accordance with Prospectus Rule 3.2.1, free of charge, at www.metrobankonline.co.uk and at the Issuer's office at One Southampton Row, London, WC1B 5HA.

Prospective investors are advised to access such information and to read the Prospectus in its entirety (and in particular the risk factors) prior to making an investment decision.

THE NEW SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ARE BEING OFFERED IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS ("**QIBS**") AS DEFINED IN RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SECTION 5 OF THE SECURITIES ACT AND OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"). THE NEW SHARES SUBSCRIBED FOR BY PURCHASERS IN THE UNITED STATES WILL BE "RESTRICTED SECURITIES" (AS DEFINED IN RULE 144 UNDER THE SECURITIES ACT) AND ARE SUBJECT TO RESTRICTIONS ON TRANSFER. SEPARATELY, THE ISSUER IS PRIVATELY PLACING CERTAIN NEW SHARES TO PERSONS WHO ARE "ACCREDITED

INVESTORS" ("**AIS**") AS SUCH TERM IS DEFINED IN RULE 501(A) OF REGULATION D UNDER THE SECURITIES ACT. THIS ELECTRONIC TRANSMISSION AND THE PROSPECTUS ARE NOT DIRECTED AT PERSONS LOCATED IN THE UNITED STATES OTHER THAN PERSONS WHO ARE QIBS OR AIS. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES TO SHAREHOLDERS WITH A REGISTERED ADDRESS IN THE EXCLUDED TERRITORIES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO MAKE OR ACCEPT AN OFFER TO ACQUIRE SHARES.

This electronic transmission, the Prospectus and the offer of New Shares are only addressed to and directed at persons in member states of the European Economic Area ("**EEA**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant member state of the EEA) and any implementing measure in each relevant member state of the EEA (the "**Prospectus Directive**") ("**Qualified Investors**"). In addition, in the United Kingdom ("**UK**"), this electronic transmission and the Prospectus are being distributed only to, and are directed only at, Qualified Investors (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (ii) who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) are persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**Relevant Persons**"). This electronic transmission and the Prospectus must not be viewed, accessed, acted on or relied on (i) in the UK, by persons who are not Relevant Persons, and (ii) in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which the Prospectus relates is available only to (i) in the UK, Relevant Persons, and (ii) in any member state of the EEA other than the UK, Qualified Investors, and will be engaged in only with such persons.

The making or acceptance of the proposed offer of New Shares to persons who have registered addresses outside the United Kingdom, or who are resident in, or citizens of, countries other than the United Kingdom may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to the legal, regulatory, tax, business, financial and related aspects of an acquisition of New Shares.

It is also the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside the UK acquiring New Shares to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories.

Subject to certain exceptions, the New Shares may not be transferred or sold to, or renounced or delivered in, the Commonwealth of Australia, its territories and possessions, Japan and the Republic of South Africa and any other jurisdiction where the extension into or availability of the Placing would breach any applicable law (the "**Excluded Territories**"). No offer of New Shares is being made by virtue of the Prospectus into the Excluded Territories.

Confirmation of your representation: By accepting electronic delivery of the Prospectus, you are deemed to have represented to RBC Europe Limited, Jefferies International Limited and Keefe, Bruyette & Woods (acting through Stifel Nicolaus Europe Limited) (together, the "**Joint Bookrunners**"), and the Issuer that: (i) you are acting on behalf of, or you are an investor outside the United States (as defined in Regulation S under the Securities Act); (ii) if you are in the UK, you are a Relevant Person; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) the New Shares acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); and (v) if you are outside the US, UK and EEA (and the electronic mail addresses that you gave us and to which the Prospectus has been delivered are not located in such jurisdictions) you are a person into whose possession the Prospectus may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

The Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Bookrunners, or any of their respective affiliates, directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and any hard copy version. By accessing the linked Prospectus, you consent to receiving it in electronic form.

You are reminded that the Prospectus has been made available to you solely on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver the Prospectus, electronically or otherwise, to any other person.

Restriction: Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

None of the Joint Bookrunners, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of the Prospectus or for any statement made or purported to be made by it, or on its behalf, in connection with the Issuer or the Placing. The Joint Bookrunners and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the Prospectus or any such statement. No representation or warranty express or implied, is made by the Joint Bookrunners or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in the Prospectus.

The Joint Bookrunners are acting exclusively for the Issuer and no one else in connection with the Placing. They will not regard any other person (whether or not a recipient of the Prospectus) as their client in relation to the Placing and will not be responsible to anyone other than the Issuer for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of the Prospectus via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (the "FSMA") if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

This document comprises: (i) a circular prepared in accordance with the Listing Rules made under section 73A of the FSMA; and (ii) a prospectus relating to Metro Bank PLC ("**Metro Bank**" or the "**Company**") prepared in accordance with the Prospectus Rules. This document has been approved by the UK Financial Conduct Authority (the "**FCA**") in accordance with section 85 of the FSMA, will be made available to the public and has been filed with the FCA in accordance with the Prospectus Rules. This document together with the documents incorporated into it by reference (as set out in Part XII (*Information Incorporated by Reference*) of this document) will be made available to the public in accordance with Prospectus Rule 3.2.1 by the same being made available, free of charge, at www.metrobankonline.co.uk and at the Company's registered office at One Southampton Row, London WC1B 5HA, United Kingdom.

The distribution of this document, any other offering or publicity material relating to the Placing and/or the transfer of New Shares into jurisdictions other than the United Kingdom, may be restricted by law and therefore persons into whose possession this document and/or accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this document, the enclosures and any other such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories.

METRO BANK

METRO BANK PLC

(incorporated and registered in England and Wales with registered number 6419578)

Placing of 75,000,000 New Shares at 500 pence each

Notice of General Meeting

Sponsor, Joint Global Coordinator and Joint Bookrunner	*Joint Global Coordinator and Joint Bookrunner*	*Joint Bookrunner*
RBC Capital Markets	**Jefferies International Limited**	**Keefe, Bruyette & Woods A Stifel Company**

A Notice of General Meeting of the Company seeking approval to undertake the Placing, to be held at One Southampton Row, London WC1B 5HA on 3 June 2019 at 3.00 p.m., is set out at the end of this document. Whether or not you are acquiring shares in the Placing or intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar, Equiniti Limited, by not later than 3.00 p.m. on 30 May 2019 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

The Shares are listed on the premium listing segment of the Official List maintained by the FCA and traded on the London Stock Exchange's main market for listed securities. Application will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Shares will commence at 8.00 a.m. (London time) on 5 June 2019.

Your attention is drawn to the letter of recommendation from the Chairman which is set out in the section headed "*Letter from the Chairman of Metro Bank PLC*" of this document. Your attention is also drawn to the section headed "*Risk Factors*" at the beginning of this document, which sets out certain risks and other factors that should be considered by Shareholders when deciding on what action to take in relation to the Placing, and by others when deciding whether or not to purchase New Shares.

The New Shares will not be registered or qualified for distribution to the public under the securities laws of any Excluded Territory and may (subject to certain exceptions) not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within such jurisdictions. There will be no public offer in any of the Excluded Territories.

RBC Europe Limited (trading as RBC Capital Markets) ("**RBC**"), is authorised by the UK Prudential Regulation Authority (the "**PRA**") and regulated in the United Kingdom by the PRA and FCA, and Jefferies International Limited ("**Jefferies**") and Keefe, Bruyette & Woods (acting through Stifel Nicolaus Europe Limited) ("**KBW**"), are authorised and regulated in the United Kingdom by the FCA (together the "**Joint Bookrunners**"). Each of the Joint Bookrunners is acting exclusively for the Company and no one else in connection with the Placing and Admission, will not regard any other person (whether or not a recipient of this document) as a client in relation to the Placing or Admission and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients, or for providing advice, in relation to the Placing, Admission or any other transaction or arrangement referred to herein.

None of the Joint Bookrunners accept any responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Shares, or the Placing. Each of the Joint Bookrunners accordingly disclaim, to the fullest extent permitted by applicable law, all and any liability, whether arising in tort, contract or otherwise, which they might otherwise have in respect of this document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Bookrunners or any of their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document, and nothing in this document will be relied upon as a promise or representation in this respect, whether or not to the past or future, provided that nothing in this paragraph shall seek to exclude or limit any responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

The Joint Bookrunners and/or their respective affiliates may, in accordance with applicable legal and regulatory provisions and subject to the placing agreement entered into in connection with the Placing (the "**Placing Agreement**"), engage in transactions in relation to the Shares and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Accordingly, references in this document to the New Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Joint Bookrunners and any of their affiliates acting for their own account. Except as required by applicable law or regulation, the Joint Bookrunners do not propose to make any public disclosure in relation to such transactions.

Notice to investors and Shareholders in the United States and Excluded Territories

THE NEW SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY OTHER U.S. OR NON-U.S. GOVERNMENTAL OR REGULATORY AUTHORITY, AND NEITHER THE SEC NOR ANY SUCH OTHER GOVERNMENTAL OR REGULATORY AUTHORITY HAS CONFIRMED OR PASSED UPON THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

The New Shares are being offered in the United States only to qualified institutional buyers ("**QIBs**") as defined in Rule 144A under the United States Securities Act of 1933 (the "**Securities Act**") pursuant to an exemption from registration under Section 5 of the Securities Act and outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). The New Shares subscribed for by purchasers in the United States will be "restricted securities" (as defined in Rule 144 under the Securities Act) and are subject to restrictions on transfer. Separately, the Company is privately placing certain New Shares to persons who are "accredited investors" ("**AIs**") as such term is defined in Rule 501(a) of Regulation D under the Securities Act.

In addition, until 40 days after the commencement of the offering of the New Shares, an offer, sale or transfer of the New Shares within the United States by any dealer (whether or not participating in the capital raise) may violate the registration requirements of the Securities Act.

Subject to certain exceptions, this document does not constitute an offer of the New Shares to any person with a registered address, or who is resident or located in any of the Excluded Territories. The New Shares have not been and will not be registered under the relevant laws of any state, province or territory of the United States or any of the Excluded Territories and may not be offered, sold, resold, taken up, transferred, delivered or distributed, directly or indirectly within the United States or any Excluded Territory except pursuant to an applicable exemption from registration requirements.

Notice to all Investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the New Shares is prohibited. By accepting delivery of this document, each offeree of the New Shares agrees to the foregoing.

The distribution of this document and/or the transfer of the New Shares into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, such documents should not be distributed, forwarded to or transmitted in or into the Excluded Territories. The New Shares are not transferable, except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 4 of Part I "*Terms and Conditions of the Placing*" of this document. No action has been taken by the Company or by the Joint Bookrunners that would permit an offer of the New Shares or rights thereto or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by the Joint Bookrunners. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as at any time subsequent to its date.

Without limitation, the contents of the Company's websites do not form part of this document.

Capitalised terms have the meanings ascribed to them in Part XIII "*Definitions*" of this document.

Information to Distributors

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the New Shares have been subject to a product approval process, which has determined that such securities are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**").

Notwithstanding the Target Market Assessment, distributors should note that: the price of the New Shares may decline and investors could lose all or part of their investment; the New Shares offer no guaranteed income and no capital protection; and an investment in the New Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Placing. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the New Shares.

Each distributor is responsible for undertaking its own target market assessment in respect of the New Shares and determining appropriate distribution channels.

This document is dated 17 May 2019.

TABLE OF CONTENTS

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A-E (A.1 E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary, together with "not applicable".

Section A – Introduction and warnings		
Annexes and Element		*Disclosure requirement*
A.1	**Introduction and warnings**	This summary should be read as an introduction to this document. Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the EEA, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in the securities.
A.2	**Consent by the issuer to the use of the Prospectus for resale or final placement of securities by financial intermediaries**	Not applicable. No consent has been given by the Company or any person responsible for drawing up this document to use this document for subsequent sale or placement of securities by financial intermediaries.

Section B – Issuer		
Annexes and Element		*Disclosure requirement*
B.1	**Legal and commercial name**	Metro Bank PLC ("**Metro Bank**", the "**Company**", and including its subsidiaries and undertakings and, where the context requires, its associated undertakings, the "**Group**").
B.2	**Domicile, legal form, applicable legislation and country of incorporation**	The Company is incorporated in England as a public limited company, limited by shares. Its registered office is situated in England and its registered number is 6419578. The principal legislation under which the Company operates is the Companies Act.
B.3	**Current operations, principal activities and markets**	Metro Bank is a deposit-taking and lending institution with a focus on retail and small and medium-size commercial customers in the United Kingdom. Metro Bank is a member of the FTSE 250 index.

<table>
<tr>
<td>B.4a</td>
<td>Significant recent trends</td>
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On 1 May 2019 Metro Bank announced its results for the first quarter to 31 March 2019. These demonstrated:

Customer account growth of 97,000 (Q1 2018: 88,000) to 1.7 million, including year-on-year personal current account growth of 24 per cent., and business current account growth of 23 per cent.
Year-on-year total deposit growth of £2.4 billion, up 19 per cent. to £15.1 billion. Deposit performance quarter on quarter was impacted by adverse sentiment following Metro Bank's January trading update, leading to a small number of commercial and partnership customers withdrawing deposits in January and February, resulting in a modest 3.6 per cent. reduction. Momentum in the core franchise continued and total deposits stabilised in March and returned to net growth in April.
Year-on-year loan growth of £4.2 billion, up 38 per cent. to £15.2 billion. Loan growth in the quarter was up £0.9 billion. Loan to deposit ratio increased to 100 per cent. (Q4 2018: 91 per cent.) as a result of servicing the committed lending pipeline originated during Q4 2018.
Underlying Profit before Tax at £6.9 million (Q1 2018: £10.0 million) and statutory profit before tax at £4.3 million (Q1 2018: £8.6 million). The year-on year reduction reflects a £2.0 million net effect of adopting IFRS 16 from 1 January 2019, and £3.5 million quarterly interest expense on the Tier 2 debt issued in June 2018. Underlying earnings per share were 5.1p (Q1 2018; 7.2p). Profitability benefited from fee and other income growth of 22 per cent. in the quarter to £22.4 million (Q4 2018: £18.3 million), up 58 per cent. year-on-year, driven by the development of new services and optimising fee structures.
Strong asset quality with cost of risk at 6bps, a 3bps improvement from Q1 2018, reflecting Metro Bank's continued low-risk lending approach.

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<td>B.5</td>
<td>Group structure</td>
<td>The Company is the operating company of the Group. The Company is a UK deposit-taking institution which is authorised by the PRA and regulated by the FCA and the PRA.</td>
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<td>B.6</td>
<td>Major Shareholders</td>
<td>
Insofar as the Company has been notified under the Disclosure Guidance and Transparency Rules, the names of the persons who, directly or indirectly, have an interest in three per cent. or more of the Company's issued share capital, and their respective interests, as at 30 April 2019 (being the latest practicable date prior to the date of this document) are as follows:
<table>
<tr><th></th><th colspan="2">Shares</th></tr>
<tr><th>Name</th><th>No.</th><th>%</th></tr>
<tr><td>Cohen Private Ventures</td><td>9,729,327</td><td>9.99%</td></tr>
<tr><td>Fidelity Management and Research</td><td>7,353,358</td><td>7.55%</td></tr>
<tr><td>The Spruce House Partnership</td><td>5,800,000</td><td>5.95%</td></tr>
<tr><td>Mr Tom Smith</td><td>5,380,542</td><td>5.52%</td></tr>
<tr><td>Wasatch Advisors</td><td>5,315,220</td><td>5.46%</td></tr>
<tr><td>Vernon W Hill, II</td><td>5,121,344</td><td>5.26%</td></tr>
<tr><td>Acacia Partners</td><td>5,020,755</td><td>5.15%</td></tr>
<tr><td>Abgrandkids</td><td>4,589,281</td><td>4.71%</td></tr>
<tr><td>Morgan Stanley</td><td>4,531,000</td><td>4.65%</td></tr>
<tr><td>Bank of America Merrill Lynch</td><td>4,374,118</td><td>4.49%</td></tr>
<tr><td>Immersion Capital</td><td>3,734,368</td><td>3.83%</td></tr>
<tr><td>The Toll Family</td><td>3,252,726</td><td>3.34%</td></tr>
</table>
So far as the Company is aware, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government or any other natural or legal person, severally or jointly.
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		None of the major Shareholders referred to above has different voting rights from other Shareholders. So far as the Company is aware, immediately following the Placing, the interests of those persons set out above with an interest in three per cent. or more of the Company's issued share capital (assuming no options under the Company's Share Schemes are exercised between the date of this document and Admission becoming effective) will be as follows:

Name	*Shares No.*	*Shares %*
Cohen Private Ventures	15,729,327	9.12%
Fidelity Management and Research	14,651,010	8.50%
The Spruce House Partnership	11,670,426	6.77%
Mr Tom Smith	7,284,617	4.22%
Wasatch Advisors	9,410,220	5.46%
Vernon W Hill, II	6,121,344	3.55%
Acacia Partners	9,383,255	5.44%
Abgrandkids	4,589,281	2.66%
Morgan Stanley	4,531,000	2.63%
Bank of America Merrill Lynch	4,374,118	2.54%
Immersion Capital	6,779,368	3.93%
The Toll Family	5,252,726	3.05%

B.7	**Selected historical financial information**	The tables below set out the Company's summary financial information for the periods indicated, as reported in accordance with IFRS as adopted by the EU. The consolidated financial information for the Company as of and for the three financial years ended 31 December 2016, 2017 and 2018 and as of and for the three months ended 31 March 2019 and 2018 has been extracted without material adjustment from the consolidated financial statements included in Metro Bank's 2016, 2017 and 2018 Annual Report and Accounts, respectively, and from the unaudited Q1 Trading Update 2019, except as noted herein. ***Summary Consolidated Income Statement*** The following table sets out Metro Bank's results of operations for the three months ended 31 March 2018 and 2019:

	Three months ended 31 March 2018	*Three months ended 31 March 2019*
	(unaudited) (£ million)	
Interest income	96.5	127.6
Interest expense	(21.5)	(43.8)
Net interest income	75.0	83.8
Fee and commission income	8.4	15.7
Net gains on sale of assets	2.7	1.3
Other income	5.7	6.7
	91.8	107.5
Operating expenses	(70.4)	(83.1)
Depreciation and amortisation	(10.0)	(17.9)
Impairment of property, plant & equipment and intangible assets	(0.5)	–
Expected credit loss	(2.3)	(2.2)
Profit before tax	8.6	4.3
Taxation	(2.2)	(1.8)
Profit for the quarter	6.4	2.5

The following table sets out Metro Bank's results of operations for 2016, 2017 and 2018:

	Year ended 31 December		
	2016	*2017*	*2018*
		(£ million)	
Interest income	213.5	302.0	444.4
Interest expense	(59.3)	(61.0)	(114.3)
Net interest income	154.2	241.0	330.1
Fee and commission income	22.2	29.7	37.6
Net gains on sale of assets	5.4	3.7	10.7
Other income	13.3	19.4	25.7
	195.1	293.8	404.1
Operating expenses	(184.9)	(232.9)	(305.6)
Depreciation and amortisation	(22.4)	(33.4)	(45.1)
Impairment of property, plant & equipment and intangible assets	(0.3)	(0.6)	(4.8)
Total operating expenses	(207.6)	(266.9)	(355.5)
Credit impairment charges/ expected credit loss	(4.7)	(8.2)	(8.0)
Profit/(Loss) before tax	(17.2)	18.7	40.6
Taxation	0.4	(7.9)	(13.5)
Profit/(Loss) for the year	(16.8)	10.8	27.1

Summary Consolidated Balance Sheet

The following table sets out Metro Bank's total assets as of 31 December 2016, 2017 and 2018 and as of 31 March 2019:

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019 (unaudited)*
		(£ million)		
Assets				
Cash and balances at central banks	435	2,112	2,286	2,370
Loans and advances to banks	65	100	186	211
Loans and advances to customers	5,865	9,620	14,235	15,167
Investment securities	3.227	3,915	4,132	3,339
Property, plant and equipment	247	328	454	752
Intangible assets	93	148	197	209
Prepayments and accrued income	43	52	66	63
Deferred tax asset	56	54	41	39
Other assets	26	26	50	44
Total assets	10,057	16,355	21,647	22,194
Liabilities				
Deposits from customers	7,951	11,669	15,661	15,095
Deposits from central banks	543	3,321	3,801	3,801
Debt securities	–	–	249	249
Repurchase agreements	653	121	344	1,126
Other liabilities	106	147	189	517
Total liabilities	9,253	15,258	20,244	20,788
Equity				
Called up share capital	–	–	–	–
Share premium account	1,027	1,304	1,605	1,605
Retained earnings	(230)	(219)	(209)	(207)
Other reserves	7	12	7	8
Total equity	804	1,097	1,403	1,406
Total equity and liabilities	10,057	16,355	21,647	22,194

Summary Consolidated Cash Flow Statement

The following table summarises Metro Bank's cash flows for the periods indicated:

	Year ended 31 December			*Three months ended 31 March*	*Three months ended 31 March*
	2016	*2017*	*2018*	*2018*	*2019*
				(unaudited)	
			(£ million)		
Net cash inflows/(outflow) from operating activities	1,169	2,293	153	157	(666)
Net cash inflows/(outflow) from investing activities	(1,349)	(857)	(443)	(584)	775
Net cash inflows/(outflow) from financing activities	398	276	550	1	–
Net increase/(decrease) in cash and cash equivalents	218	1,712	260	(426)	109
Cash and cash equivalents at start of period	282	500	2,212	2,212	2,472
Cash and cash equivalents at end of period	500	2,212	2,472	1,786	2,581

The summary below presents certain significant changes in Metro Bank's financial condition or operating results as of and for the years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019.

Metro Bank's deposits from customers as of 31 March 2019 were £15,095 million, a decrease of £566 million, or 4 per cent., compared to £15,661 million as of 31 December 2018. The decrease in Metro Bank's deposits from customers over this period was primarily due to adverse sentiment following Metro Bank's January trading update. This resulted in a small number of commercial and partnership customers withdrawing deposits in January and February 2019, which caused Metro Bank's total deposits to fall. Total deposits stabilised in March 2019 and returned to net growth in April 2019.

Metro Bank's deposits from customers as of 31 December 2018 were £15,661 million, an increase of £3,992 million, or 34 per cent., compared to £11,669 million as of 31 December 2017. The increase in Metro Bank's deposits from customers over this period was primarily driven by growth of customer accounts, particularly with business customers, including SMEs.

Metro Bank's deposits from customers as of 31 December 2017 were £11,669 million, an increase of £3,718 million, or 47 per cent., compared to £7,951 million as of 31 December 2016. The increase in Metro Bank's deposits from customers over this period was primarily driven by growth of customer accounts, particularly with business customers, including SMEs.

Metro Bank's net interest income for the three months ended 31 March 2019 increased by £8.8 million, or 12 per cent., from £75.0 million for the three months ended 31 March 2018 to £83.8 million for the three months ended 31 March 2019. The increase in net interest income was primarily due to an increase in loans and advances to customers and an increased LTD Ratio.

		Metro Bank's net interest income in 2018 increased by £89.1 million, or 37.0 per cent., from £241.0 million in 2017 to £330.1 million in 2018. The increase in net interest income was primarily due to an increase in loans and advances to customers and an increased LTD Ratio. Metro Bank's net interest income in 2017 increased by £86.8 million, or 56 per cent., from £154.2 million in 2016 to £241.0 million in 2017. The increase in net interest income was primarily due to an increase in loans and advances to customers and an increased LTD Ratio. Metro Bank's fee and commission income for the three months ended 31 March 2019 increased by £7.3 million, or 87 per cent., from £8.4 million for the three months ended 31 March 2018 to £15.7 million for the three months ended 31 March 2019. The increase in fee and commission income was primarily due to an increase in the number of customer accounts, deepening of relationships with existing customers and an increase in safe deposit box income following the opening of new stores. Metro Bank's fee and commission income in 2018 increased by £7.9 million, or 27 per cent., from £29.7 million in 2017 to £37.6 million in 2018. The increase in fee and commission income was primarily due to an increase in customer numbers leading to an increase in transaction volumes and higher fee income from the sales of safe deposit boxes. Metro Bank's fee and commission income in 2017 increased by £7.5 million, or 34 per cent., from £22.2 million in 2016 to £29.7 million in 2017. The increase in fee and commission income was primarily due to an increase in customer numbers leading to an increase in transaction volumes and higher fee income from the sales of safe deposit boxes. Metro Bank's operating expenses for the three months ended 31 March 2019 increased by £12.8 million, or 18 per cent., from £70.4 million for the three months ended 31 March 2018 to £83.1 million for the three months ended 31 March 2019. The increase in operating expenses was primarily due to expansion of the store network and investment in IT and digital capabilities, in part in response to increased regulatory requirements. Metro Bank's operating expenses in 2018 increased by £72.7 million, or 31 per cent., from £232.9 million in 2017 to £305.6 million in 2018. The increase in operating expenses was primarily due to continued expansion of the store network and investment in IT and digital capabilities, in part in response to increased regulatory requirements. Metro Bank's operating expenses in 2017 increased by £48 million, or 26 per cent., from £184.9 million in 2016 to £232.9 million in 2017. The increase in operating expenses was primarily due to expansion of the store network and investment in IT, digital capabilities and business development. There has been no significant change in the financial condition or operating results of Metro Bank since 31 March 2019.

B.8 **Key pro forma financial information**

	Group as at 31 March 2019 (unaudited) *(Note 1)*	*Adjustment Net proceeds from the Placing (unaudited) (£ million)* *(Note 2)*	*Pro Forma Group (unaudited)*
Assets			
Cash and balances at central banks	2,370	363	2,733
Loans and advances to banks	211	–	211
Loans and advances to customers	15,167	–	15,167
Investment securities	3,339	–	3,339
Property, plant and equipment	752	–	752
Intangible assets	209	–	209
Prepayment and accrued income	63	(1)	62
Deferred tax asset	39	–	39
Other assets	44	–	44
Total assets	22,194	362	22,556
Liabilities			
Deposits from customers	15,095	–	15,095
Deposits from central banks	3,801	–	3,801
Debt securities	249	–	249
Repurchase agreements	1,126	–	1,126
Other liabilities	517		517
Total liabilities	20,788		20,788
Net assets	1,406	362	1,768
Common Equity Tier 1 resources (Note 3)	1,160	362	1,522
Common Equity Tier 1 ratio (Note 3)	12.1%	3.7%	15.8%
Leverage ratio (Note 3)	5.2%	1.5%	6.7%

Notes:

(1) The Group's financial information as at 31 March 2019 has been extracted, without material adjustment, from the Group's financial information referenced in Part V ("*Historical Financial Information*").

(2) The adjustment reflects the receipt by the Company of net proceeds from the Placing comprising:

Gross proceeds from the Placing	£375 million
Less: transaction costs	£13 million
Plus transaction costs paid as at 31 March 2019	£1 million
Net Proceeds from the Placing	**£363 million**

No adjustment has been made to reflect trading results of the Group since 31 March 2019.

(3) The common equity tier 1 ratio is the total common equity tier 1 resources to risk-weighted assets. Common equity tier 1 resources are set out below on both an unadjusted and on a pro forma basis. Risk-weighted assets as at 31 March 2019 were £9,613 million. Risk-weighted assets are unaffected by the pro forma adjustments as the cash deposits are assumed to have a zero risk-weighting.

The leverage ratio is the ratio of total common equity tier 1 resources to total exposures. Common equity tier 1 resources are set out below on both an unadjusted and on a pro forma basis. Total exposures on an unadjusted basis and a pro forma basis were £22,194 million and £22,556 million, respectively. The only pro forma adjustment was to reflect the receipt of the net proceeds from the Placing set out in Note 2.

Common equity tier 1 resources are as follows:

Common Equity Tier 1	*As of 31 March 2019 (unaudited)*	*Adjustment Net proceeds from the Placing (unaudited)*	*Pro forma Group (unaudited)*
		(£ million)	
Total Equity *	1,406	362	1,768
add back IFRS 9 transition adjustment	10	–	10
less unaudited profit for Q1	(2)	–	(2)
less intangible assets	(209)	–	(209)
less deferred tax asset	(52)	–	(52)
add deferred tax liability on goodwill	7	–	7
Total Common Equity Tier 1	1,160	362	1,522

* Total equity includes share capital, share premium, retained earnings and other reserves.

(4) No adjustment has been made to reflect trading results of the Group since 31 March 2019.

B.9	**Profit forecast or estimate**	Not applicable. No profit forecast has been included in this Prospectus.
B.10	**Qualifications in the audit report on the historical financial information**	Not applicable. There are no qualifications to the audit report on the historical financial information.
B.11	**Insufficient working capital**	In the opinion of the Company, taking into account the net proceeds receivable by the Company from the Placing, the working capital available to the Group is sufficient for the Group's present requirements, that is for the next 12 months following the date of this Prospectus.

Section C – Shares		
Annexes and Element		*Disclosure requirement*
C.1	**Type and class of securities**	Pursuant to the Placing, the Company has offered 75,000,000 New Shares at 500 pence per New Share. Each New Share is expected to be issued at a premium of 499.9999 pence to its nominal value of 0.0001 pence. When admitted to trading, the New Shares will be registered with ISIN number GB00BZ6STL67 and SEDOL number BZ6STL6.
C.2	**Currency**	Pounds sterling.
C.3	**Issued share capital**	On 16 May 2019 (being the latest practicable date prior to the publication of this document), the Company had 97,420,458 Shares of 0.0001 pence each (fully paid) and the nominal share capital of the Company amounted to £97.40.
C.4	**Rights attaching to the New Shares**	The Shares rank equally for voting purposes. On a show of hands, each Shareholder has one vote and on a poll each Shareholder has one vote per Share held. Each Share ranks equally for all dividends and distributions made.
C.5	**Restrictions on transfer**	The Shares are freely transferable and there are no restrictions on transfer in the UK.
C.6	**Admission**	Application will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. It is expected that Admission will become effective on 5 June 2019 and that dealings on the London Stock Exchange in New Shares will commence at 8.00 a.m. on that date.

C.7	**Dividends and dividend policy**	The Company has not declared or paid a dividend for the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018. The Company does not anticipate paying a dividend in the near future.

Section D – Risks		
Annexes and Element		*Disclosure requirement*
D.1	**Key information on the key risks that are specific to the Company**	***Risks relating to the Macroeconomic Environment in which Metro Bank Operates*** ● The ongoing political uncertainty surrounding the UK's planned withdrawal from the European Union ("**Brexit**") has adversely affected the UK's credit rating, with Standard & Poor's Global and Fitch downgrading the UK to an AA rating, and Moody's downgrading the UK to Aa2. If UK economic conditions continue to weaken further, or if financial markets continue to exhibit uncertainty or volatility, including as a result of a downgrade in the credit rating of the UK Government or the outlook of the UK banking sector, Metro Bank's ability to continue to grow its business could be adversely impacted. ● Metro Bank is exposed to the condition of the UK economy as Metro Bank's revenue is derived almost entirely from customers based in the UK. In addition, as a High Street bank, Metro Bank's business performance is influenced in particular by the economic condition of its customers. Deterioration in economic conditions in the eurozone and globally, including instability in financial markets, may pose a risk to Metro Bank's business, despite the fact that Metro Bank has no direct financial exposure outside of the UK and only minimal credit risk exposure outside of the UK. ● Interest rates, which are impacted by factors outside of Metro Bank's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect Metro Bank's results, profitability and consequential return on capital in three principal areas: cost and availability of funding, margins and revenues, and impairment levels. The UK continues to experience historically low interest rates. ● The value of Metro Bank's mortgage portfolio is influenced by UK house prices, and a significant portion of Metro Bank's revenue is derived from interest and fees paid on its mortgage portfolio. Downturns in the UK economy have had a negative effect on the UK housing market. Generally, a decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce Metro Bank's capital and its ability to engage in lending and other income-generating activities. ***Risks relating to the Operation of Metro Bank's Business*** ● Metro Bank is subject to claims, investigations and litigation and in, particular, recent ongoing regulatory investigations by the PRA and the FCA into the circumstances surrounding Metro Bank's adjustment of its risk-weighted assets ("**RWAs**"), including into its regulatory reporting; the systems, controls and governance in place to ensure compliance with these reporting obligations and Metro Bank's disclosure obligations; and the timing and content of announcements related to the RWA adjustment, which could adversely affect Metro Bank's reputation and earnings. ● Metro Bank's success relies significantly on the strength of its brand. The Metro Bank brand is relatively new, and there can be no assurance that Metro Bank will be able to continue to successfully develop its brand's reach to grow market share. As a result, damage

		to Metro Bank's brand or reputation could result in rapid and material negative operational and financial effects, including the loss of significant amounts of customer deposits. ● The implementation of Metro Bank's strategy is subject to a number of risks, including operational, financial, macroeconomic, market, pricing and technological challenges. ● The availability of retail and commercial deposits, Metro Bank's primary source of funding, may be impacted by increased competition from other deposit-takers or factors that constrain the volume of liquidity in the market. ● The market for financial services in the UK is highly competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. ● Metro Bank relies on its network of intermediaries, such as mortgage brokers, to originate a portion of loans for its mortgage, invoice and asset finance portfolios. Metro Bank has limited oversight of intermediaries' interactions with prospective customers, and if intermediaries violate applicable regulations or standards when selling Metro Bank's products, Metro Bank's reputation could be harmed. ● Metro Bank has exposures to counterparties and obligors whose credit quality can have a significant adverse impact on Metro Bank's earnings and the value of assets on Metro Bank's balance sheet. ● On 22 February 2019, Metro Bank was awarded a £120 million grant from the Capability and Innovation Fund (the "**C&I Fund**"), a UK scheme designed as part of measures agreed between the UK Government and the European Commission to encourage competition in the SME banking market in the wake of the 2008 financial crisis. The C&I Fund is managed by the Banking Competition Remedies Limited (the "**BCR**"), an independent fund administrator to which Metro Bank submitted a contractually binding business plan during its bid for a C&I grant. C&I funds must be used in accordance with the business plan that Metro Bank submitted to the BCR, and material breaches of Metro Bank's commitments in its bid could result in Metro Bank needing to repay its grant entirely, in addition to interest in the amount of 8 per cent. above the Bank of England rate (compounded quarterly). ● Substantially all of Metro Bank's business relates to customers in the UK and, more specifically, predominantly those in London and the South East of England. If a disruption to the credit markets or an adverse change in economic or political conditions were to have a disproportionate effect on London and the South East of England, Metro Bank could be exposed to greater potential losses than some of its competitors, which could have a material adverse effect on its business, financial condition and results of operations. ● Metro Bank faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. Effective risk management requires, among other things, robust policies, processes and controls for the accurate identification and control of a large number of transactions and events, and Metro Bank's risk management policies, processes and controls may not prove to be adequate. ● Metro Bank's business is dependent on processing a high volume of complex transactions across numerous and diverse products and services accurately and efficiently. Metro Bank also depends on technology to maintain its reputation for quickly and seamlessly processing customer requests, including account openings,

		payments and transfers. As a result, any weakness in Metro Bank's IT systems, online or mobile banking platforms, or operational processes could have an adverse effect on its ability to operate its business and meet customer needs. ● Metro Bank's operations are subject to a number of laws relating to data privacy and protection, including the Data Protection Act 1998, the Privacy and Electronic Communications (EC Directive) Regulations 2003 and the General Data Protection Regulation (the "**GDPR**"). The requirements of these laws may affect Metro Bank's ability to collect, process and use personal, employee and other data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to Metro Bank. ● As a financial institution, Metro Bank is subject to a heightened risk that it will be the target of criminal activity, including fraud, theft or cybercrime. ● Metro Bank faces risks relating to its hedging operations. Metro Bank engages in limited hedging activities to, for example, limit the potential adverse effect of interest rate fluctuations on its results of operations. If its hedging strategies are not effective, Metro Bank may be required to record negative fair value adjustments. Losses from the fair value of financial assets could also have a material adverse effect on Metro Bank's capital ratios. ● Metro Bank's success depends on the continued service and performance of its key colleagues, particularly its senior management, and its ability to attract, retain and develop high-calibre talent. Metro Bank may not succeed in attracting and retaining key personnel if they do not identify or engage with Metro Bank's brand and values. ● Metro Bank's business strategy depends on securing leases, which are typically long term, or purchasing premises in prime locations for its store network. However, competition for these types of properties is likely to be significant, and Metro Bank cannot be certain it will be able to secure its premises of choice or necessary planning approvals. ● Metro Bank owns and uses the domain "www.metrobankonline.co.uk". Metro Bank purchased the registered trade mark "Metrobank" from an individual who also owns the internet domain "www.metrobank.co.uk" (which was not acquired by Metro Bank). When Metro Bank bought the registered trade mark, it entered into an agreement that provided Metro Bank would not attempt to use its rights in the registered trade mark to gain control of the internet domain. As a result, Metro Bank cannot control who might purchase the domain or the purpose for which it might be used. ● Metro Bank's activities are conducted in the UK and, consequently, it is subject to a range of UK taxes. Revisions to tax legislation or to its interpretation could result in increased tax rates (including in relation to UK corporation tax rates) or additional taxes.
D.3	**Key information on the key risks specific to the Shares**	● The market price of the Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Shares (or securities similar to them), including, in particular, in response to various facts and events, including any regulatory changes affecting Metro Bank's operations, variations in Metro Bank's operating results and/or business developments of Metro Bank and/or its competitors. ● There can be no assurance that Admission of the New Shares to the London Stock Exchange will become effective or that an active trading market in the New Shares will develop upon or following Admission.

		● The New Shares are priced in pounds sterling. Accordingly, any investor outside the United Kingdom is subject to adverse movements in its local currency against pounds sterling. ● There can be no assurance that Metro Bank will pay dividends in the future. ● The economic and voting interests (as a percentage of the Enlarged Share Capital) of Shareholders who do not participate in the Placing will be diluted as a result of the Placing. ● In the case of an allotment of Shares for cash, Shareholders have certain statutory pre emption rights (unless those rights are disapplied by a special resolution of the Shareholders at a general meeting) and such a non pre-emptive issue could dilute the interests of Shareholders. ● Other than pursuant to the Placing, Metro Bank has no current plans for an offering of Shares in the short-term, apart from possible issues in relation to certain of the Share Schemes. However, it is possible that Metro Bank may decide to offer additional Shares in the future either to raise capital or for other purposes. If Shareholders of Metro Bank do not take up such offer of Shares or are not eligible to participate in such offering, their proportionate ownership and voting interests in Metro Bank would be reduced and the percentage that their Shares would represent of the total share capital of Metro Bank would be reduced accordingly. Pursuant to the Placing Agreement, the Company will be locked up for 180 days. ● The Company is incorporated in England and Wales. Most of the Company's assets are located in the United Kingdom. As a result, it may not be possible for investors outside of the United Kingdom to effect service of process against the Company or the Directors or to enforce the judgment of a court outside the United Kingdom against the Company or the Directors.

Section E – Offer		
Annexes and Element		*Disclosure requirement*
E.1	**Net proceeds and costs**	The net proceeds of the Placing will be approximately £362 million (net of fees, costs and expenses). The total fees, costs and expenses payable by the Company in connection with the Placing will be approximately £13 million (including VAT). No fees, costs or expenses will be charged by the Company to subscribers of the New Shares.
E.2a	**Reasons for the Placing and use of proceeds**	Vernon W. Hill, II founded Metro Bank in 2010 as the first full-service, independent, new High Street bank to open in the UK in more than 100 years. Metro Bank uses a disruptive, service-led, deposit-driven funding model and a customer service proposition that emphasises simple, straightforward banking in order to turn its customers into "FANS". The macroeconomic backdrop in the UK has been particularly challenging over recent quarters and Metro Bank has not been immune to these pressures. Specifically, the macro challenges for the sector include: (i) the ongoing low interest rate environment; (ii) the competitive environment; (iii) ongoing regulatory requirements; and (iv) the pace of regulatory change. In addition to these macro headwinds, Metro Bank has also been impacted by certain company specific factors including: (i) the RWA adjustment announced on 23 January 2019; (ii) Metro Bank not yet being granted AIRB approval for residential mortgages; and (iii) operational transformation required to improve scope for operational efficiency (e.g., cost-to-income ratio).

		As a result of the factors above, Metro Bank has been generating capital through retained earnings at a lower rate. In addition, the £95 million impact on its Tier 1 capital caused by the adjustment of its RWAs has reduced its capital surplus, and its projected future capital position has also been negatively impacted by the change in expectation of the timing of AIRB migration. Metro Bank's capital position will, however, be strengthened by its receipt of the net proceeds of the Placing, which will allow it to further grow its loan balances and RWAs, while investing in the expansion of stores and new technologies. These initiatives will be used to counterbalance the adverse effects on its business discussed above and support an evolved growth strategy based on the four key pillars of (i) balancing controlled growth, profitability and capital efficiency, (ii) rebalancing its lending mix, (iii) expanding its range of services, and (iv) delivering cost efficiency improvements. If Metro Bank is unable to raise the proceeds referred to above because it fails to receive the requisite level of voting support in favour of the Placing from its shareholders, Metro Bank has prudently made plans to limit the growth of its loan book and strategic investments to ensure that its regulatory capital levels remain within its risk appetite, with a management target CET1 ratio of 12 per cent. or more.
E.3	**Terms and conditions of the Placing**	***The Placing*** The Company has raised gross proceeds of £375 million by way of a non-pre-emptive Placing of 75,000,000 New Shares to certain new and existing investors who have agreed to subscribe for New Shares pursuant to the Placing at an Issue Price of 500 pence per New Share, subject to the conditions set out below. The Board has carefully considered and consulted with a number of the Company's leading Shareholders on the best way to structure the proposed equity capital raise. The decision to structure the equity capital raising by way of a non-pre-emptive Placing takes into account a number of factors, including the net proceeds to be raised. The Board has sought to balance the potential for dilution to non-participating Shareholders with the benefits to Shareholders as a whole of promoting deal certainty and the familiarity of the Placing structure to the Company's Shareholder base. Although the Placing will be undertaken on a non-pre-emptive basis, the Company intends to respect the principles of pre-emption as far as practicable by extending the offer to a significant majority of Shareholders and, as far as practicable, allocating to existing Shareholders at least up to what would be their pre-emptive entitlement. The Issue Price represents a 5.2 per cent. discount to the average closing price of 527.4 pence per Existing Share for the five days ended the Reference Date and a 6.8 per cent. discount to the Closing Price of 536.5 pence per Existing Share on the Reference Date. The Placing is fully underwritten by the Joint Bookrunners on the terms and subject to the conditions of the Placing Agreement. ***Conditions*** The Placing is, *inter alia*, conditional upon: (i) the Transaction Resolutions having been passed by Shareholders at the General Meeting convened for the purposes of seeking approval to undertake the Placing; (ii) the Placing Agreement having become unconditional in all respects, save for the condition relating to Admission, and not having been terminated in accordance with its terms before Admission occurs; and (iii) Admission having become effective by not later than 8.00 a.m. on 5 June 2019 (or such later time and/or date as the Joint Bookrunners and Metro Bank may agree, not being later than 12 June 2019).

		If any of the conditions are not satisfied or, if applicable, waived, then the Placing will not take place. The General Meeting and the Transaction Resolutions are separate from the Annual General Meeting of the Company to be held at 1.30 p.m. on 21 May 2019 (the "**AGM**") and the resolutions proposed at the AGM.
E.4	**Material interests**	Not applicable. There are no interests, including conflicting interests, which are material to the Placing, other than those disclosed in B.6 above.
E.5	**Name of offeror**	Metro Bank PLC
	Details of lock-up arrangements	Pursuant to the Placing Agreement, Metro Bank has undertaken (subject to certain exceptions) not to offer, issue or grant any rights over any Shares or related securities for a period ending 180 days from the date of Admission.
E.6	**Dilution**	The economic and voting interests of Shareholders who do not participate in the Placing will be diluted by 43.5 per cent. as a result of the Placing.
E.7	**Estimated expenses charged to the investor**	Not applicable. No fees, costs or expenses of the Placing will be directly charged to Shareholders or Placees.

RISK FACTORS

Any investment in the New Shares is subject to a number of risks. Accordingly, prospective investors and Shareholders should carefully consider the factors and risks associated with any investment in the New Shares, Metro Bank and the industry in which it operates, together with all other information contained or incorporated by reference into this document, including, in particular, the risk factors described below, and their personal circumstances prior to making any investment decision. Some of the following factors relate principally to Metro Bank's business, while others relate principally to the Placing. The business, operating results, financial condition and prospects of Metro Bank could be materially and adversely affected by any of the risks described below. In such case, the market price of the New Shares may decline and investors may lose all or part of their investment.

Prospective investors and Shareholders should note that the risks relating to Metro Bank and the industry in which it operates and the risks relating to the New Shares summarised in the section of this document headed "Summary" are the risks that the Directors believe to be the most essential to an assessment by a prospective investor or Shareholder of whether to invest in the New Shares. However, prospective investors and Shareholders should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks which investors and Shareholders may face when making an investment in the New Shares and should be used as guidance only. Additional risks and uncertainties relating to Metro Bank that are not currently known to the Directors or the Company, or that they currently deem or it currently deems immaterial, may individually or cumulatively also have a material adverse effect on Metro Bank's business, financial condition and results of operations and, if any such risk should occur, the price of the New Shares may decline and prospective investors and Shareholders could lose all or part of their investment. Prospective investors and Shareholders should consider carefully whether an investment in the New Shares is suitable for them in the light of the information in this document and their personal circumstances.

None of the statements made in the risk factors that follow in any way qualify the Company's working capital statement contained in the section headed "Letter from the Chairman of Metro Bank PLC" of this document.

Risks relating to the Macroeconomic Environment in which Metro Bank Operates

Metro Bank is subject to risks resulting from the UK's planned withdrawal from the European Union ("Brexit")

In March 2017, the UK gave notice of its intention to leave the European Union under Article 50 of the Treaty on European Union, and the United Kingdom is still in the process of determining what form that exit will take.

As at the date of this Prospectus, there is no certainty that there will be a ratified withdrawal agreement by 31 October 2019, and it remains the default position that the United Kingdom will leave the European Union on this date without an agreement in place, unless a further extension is requested by the United Kingdom government and granted by the European Union. If the United Kingdom were to leave without an agreement, this could have a significant and immediate impact on the United Kingdom's day-to-day interactions with Europe, including the flow of funds between the two.

The UK's planned withdrawal from the European Union has also adversely affected the UK's credit rating, with Standard & Poor's Global and Fitch downgrading the UK to an AA rating, and Moody's downgrading the UK to Aa2. If UK economic conditions continue to weaken further, or if financial markets continue to exhibit uncertainty or volatility, including as a result of a downgrade in the credit rating of the UK Government or the outlook of the UK banking sector, Metro Bank's ability to continue to grow its business could be adversely impacted.

In particular, worsening economic and market conditions in the UK could result in reduced demand for Metro Bank's products from its customers, a reduction in their deposits with Metro Bank and an increase in arrears, impairment provisions and defaults. In addition, a significant proportion of the legal and regulatory regime applicable to Metro Bank in the UK, as well as anticipated regulatory reform, is derived from

EU directives and regulations. The outcome of Brexit negotiations and the way in which such laws and regulations are adopted in the UK could therefore materially change the legal and regulatory framework applicable to Metro Bank's operations, including in relation to its regulatory capital requirements. For example, in the event of a hard Brexit, and in the absence of PRA relief, the EU Capital Requirements Regulation (the "**CRR**") could be on-shored into domestic UK regulation, which could have a significant impact on the UK banking industry, including an increase in the risk-weighting which UK banks assign to exposures to EU Member States. These or any other Brexit-related factors could have a material adverse effect on Metro Bank's business, financial condition and result of operations.

Metro Bank's business is subject to inherent risks arising from macroeconomic conditions in the UK, the eurozone and globally, both generally and as they specifically affect financial institutions

As Metro Bank's revenue is derived almost entirely from customers based in the UK, Metro Bank is particularly exposed to the condition of the UK economy. In addition, as a High Street bank, Metro Bank's business performance is influenced in particular by the economic condition of its customers. The GfK SE index reported that UK consumer confidence was -13 in February 2019, having fallen from -10 in February 2018. Although unemployment modestly declined in 2018, weak economic conditions in the UK could lead to an increase, which has historically resulted in a decrease in new mortgage borrowing and reduced or deferred levels of spending, as well as an increase in arrears, impairment provisions and defaults.

Deterioration in economic conditions in the eurozone and globally, including instability in financial markets, may pose a risk to Metro Bank's business, despite the fact that Metro Bank has no direct financial exposure outside of the UK and only minimal credit risk exposure outside of the UK. The UK financial markets, as well as the UK housing market, could be negatively impacted, as they have been in the past, by a number of global macroeconomic events, including ongoing concerns surrounding, for example a weakening of the Chinese economy and a decline in global commodity prices such as crude oil. The effects of these events have been felt in the UK economy and by UK financial institutions in particular, and have placed strains on funding markets at times when many financial institutions had material funding needs. Furthermore, given the interdependence between financial institutions, Metro Bank is and will continue to be subject to the risk of deterioration or perceived deterioration of the commercial and financial soundness of other financial services institutions, both in the UK and beyond. Within the financial services industry, the default of any institution could lead to defaults, liquidity problems and losses by other institutions including Metro Bank, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank faces risks associated with interest rate levels and volatility

Interest rates, which are impacted by factors outside of Metro Bank's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, affect Metro Bank's results, profitability and consequential return on capital in three principal areas: cost and availability of funding, margins and revenues, and impairment levels.

The UK continues to experience interest rates at historically low levels. However, the Bank of England has publicly stated its intention to gradually raise interest rates, which could also adversely affect Metro Bank. As of 31 March 2019, 30 per cent. (31 December 2018, 30 per cent.; 31 December 2017, 32 per cent.; 31 December 2016, 29 per cent.) of Metro Bank's deposits from customers were demand current accounts, and in an increasing interest rate environment, Metro Bank may be more exposed to re-pricing of its liabilities than competitors with higher levels of term deposits. In the event of sudden large or frequent increases in interest rates, Metro Bank also may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short-term, which, in turn, can negatively affect its net interest margin ("**NIM**") and revenue.

Changes in interest rates also impact Metro Bank's loan impairment levels and customer affordability. As of 31 March 2019, 32.4 per cent. (31 December 2018, 34.0 per cent.; 31 December 2017, 40.9 per cent.; 31 December 2016, 40.8 per cent.) of Metro Bank's loans and advances to customers were variable rate. As a result, a rise in interest rates, without sufficient improvement in customer earnings or employment levels, could, for example, lead to an increase in default rates among customers with variable rate loans who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for Metro Bank. A high interest rate environment also reduces demand for loan products generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing Metro Bank's revenue. In addition, given that the majority of Metro Bank's loans and advances to customers are variable rate and repayable without penalty, there is a risk that a sudden rise in interest rates, or an expectation thereof, could encourage significant demand for fixed rate products. High levels of movement between products in a concentrated time period could put considerable strain on Metro Bank's business and operational capability, and Metro Bank may not be willing or able to price its fixed rate products as competitively as others in the market. This could lead to high levels of customer attrition and, consequently, a negative impact on Metro Bank's profitability.

In addition, changes in interest rates can affect Metro Bank's net interest income and margins. In August 2018, the Bank of England raised its base rate to 0.75 per cent. from the 0.50 per cent. rate that had prevailed since November 2017 (which in turn represented an increase from the 0.25 per cent. rate that prevailed until August 2016). This low interest rate environment has put pressure on NIMs throughout the UK banking industry. The sustained period of low interest rates has resulted in relatively low spreads being realised by Metro Bank between the rate it pays on customer deposits and the rate received on the loans and the structural hedges that Metro Bank enters into with respect to its equity and non-dated, interest rate insensitive liabilities, reducing Metro Bank's net interest income and NIM. Metro Bank's business and financial performance and net interest income and NIM may continue to be adversely affected by a continued low interest rate environment.

Any of the foregoing could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank faces risks relating to volatility in UK real estate

The value of Metro Bank's mortgage portfolio is influenced by UK house prices, and a significant portion of Metro Bank's revenue is derived from interest and fees paid on its mortgage portfolio. As of 31 March 2019, £10,731 million, or 71 per cent. (31 December 2018, £9,913 million or 69 per cent.; 31 December 2017, £6,448 million or 67 per cent.; 31 December 2016, £3,785 million or 64 per cent.), of Metro Bank's loans and advances to customers were retail, with 97 per cent.; 97 per cent.; 97 per cent.; and 95 per cent., respectively, of that being residential mortgages. In addition, Metro Bank intends to rebalance the mix of its lending to increase the share of mortgages in its portfolio to approximately 70 per cent. to 75 per cent. by 2023, increasing its dependence on the strength of the UK residential mortgage market. Downturns in the UK economy have had a negative effect on the UK housing market. Generally, a decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce Metro Bank's capital and its ability to engage in lending and other income-generating activities. Conversely, a significant increase in house prices over a short period of time could also have a negative impact on Metro Bank by reducing the affordability of homes for buyers, which could lead to a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting Metro Bank's ability to grow its mortgage portfolio.

Metro Bank's mortgage portfolio, like its customer base, is concentrated in London and its surrounding areas. Approximately 67 per cent. and 81 per cent. of Metro Bank's retail mortgage portfolio and commercial lending, respectively, was concentrated in Greater London and South East England as of 31 March 2019. Metro Bank has benefited from the fact that in London, prime residential property has been regarded as a preferred outlet for international capital, in part owing to London's status as a political and financial centre. Although residential property price growth has been largely sustained in recent years, following the June 2016 Brexit referendum, UK house prices, particularly in Greater London and South East England, have in many instances either stagnated or declined. In addition, the buy-to-let market in the UK, which is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation, and which has in the past contributed to robust growth in housing prices that is beneficial for Metro Bank's portfolio (approximately 71 per cent. of Metro Bank's retail buy-to-let portfolio was concentrated in Greater London and South East England as of 31 March 2019), has also slowed. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties. Furthermore, the UK Government introduced new rules in 2017 that have tempered the market for buy-to-let mortgages, including the gradual removal of tax relief on mortgage interest for buy-to-let landlords by 25 percentage points a year, which may result in lower yields on buy-to-let property investments. The UK Government also increased stamp duty payable on second homes and certain buy-to-let homes by 3 per cent. starting in April 2016.

These factors have adversely affected the number of homes sold and, consequently, reduced demand for related mortgages.

Furthermore, the UK Government's intervention into the housing market may also contribute to volatility in house prices, both directly through buyer assistance schemes and indirectly, until January 2018, through the provision of liquidity to the banking sector under the Bank of England and HM Treasury's Funding for Lending scheme ("**FLS**") and until February 2018, the Bank of England's Term Funding Scheme ("**TFS**"). The closure of the FLS and TFS may impact the future availability of mortgage lending and, consequently, house prices. Similarly, a sudden end to buyer assistance schemes could lead to a decrease in house prices, or conversely, a continuation could lead to inflation in house prices. In addition, the Mortgage Market Review ("**MMR**") came into force in April 2014 and amended certain existing rules on mortgage lending, including increased verification of income, assessment of affordability, interest rate stress tests and assessments of future changes of borrowers' income. These factors may negatively affect mortgage supply and demand. The future impact of these initiatives on the UK housing market and other regulatory changes or UK Government programmes, such as the implementation of the European Union Mortgage Credit Directive in 2016, is difficult to predict. Volatility in the UK housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Risks relating to the Operation of Metro Bank's Business

Claims, investigations and litigation, and in particular recent on-going regulatory investigations by the PRA and the FCA into the circumstances surrounding Metro Bank's adjustment of its RWAs, could adversely affect Metro Bank's brand, reputation and earnings

Metro Bank is subject to the risk of claims, litigation and regulatory proceedings in the course of its business. These risks may arise for a number of reasons, including (i) Metro Bank's business may not be, or may not have been, conducted in accordance with applicable laws or regulations, (ii) contractual obligations may either not be enforceable as intended or may be enforced in a way that is adverse to Metro Bank or (iii) liability for damages may be incurred to third parties harmed by the conduct of Metro Bank's business. There can be no assurance that Metro Bank will prevail in any future litigation or regulatory proceedings.

In particular, in February 2019, Metro Bank received notice that the FCA and the PRA had independently appointed investigators to review the circumstances and events that led to the Company's adjustment of its RWAs in the amount of £900 million (which resulted in a reduction of Metro Bank's Tier 1 capital surplus by £95 million, based on a Tier 1 minimum regulatory capital requirement of 10.6 per cent. of RWAs) (the "**RWA Matter**"), which was announced in January 2019. These investigations focus on Metro Bank's regulatory reporting; the systems, controls and governance in place to ensure Metro Bank's compliance with its reporting and disclosure obligations; and the timing and content of announcements related to the RWA Matter. Metro Bank may incur significant expenses in connection with the resolution of the RWA Matter. Furthermore, the investigation may lead to a public censure, financial penalties or compensation payments, a variation or suspension of Metro Bank's regulatory permissions and possible criminal liability for Metro Bank. In addition, the RWA Matter could negatively impact Metro Bank's brand, reputation and share price, and could lead to further adverse consequences, including civil litigation. At this stage, the timing and outcome of the RWA Matter cannot be predicted. Metro Bank is working closely with the FCA and PRA and will update the market on the outcome of the investigations in due course.

Any litigation, claims, investigations (including the RWA Matter) or other proceedings, whether or not determined in Metro Bank's favour or settled by Metro Bank, could be costly and may divert the efforts and attention of Metro Bank's management and other personnel from normal business operations. In addition, any related proceedings could adversely affect Metro Bank's reputation and the market's perception of Metro Bank and the products and services that it offers, as well as customer demand for those products and services, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is reliant on the success of its brand, and it is subject to reputational harm that could damage its brand

Metro Bank's success relies significantly on the strength of its brand. The Metro Bank brand is relatively new, and there can be no assurance that Metro Bank will be able to continue to successfully develop its brand's reach to grow market share. This is particularly the case as Metro Bank's strategy has been, and is expected to continue to be, reliant on its direct distribution channels in the communities it serves (comprising its highly visible store, mobile and internet offerings, and local contact centres, together with its unique customer service proposition) to increase its brand awareness and foster deposit growth, rather than the more conventional (and costly) approach of media advertising and sponsorships adopted by other market participants.

In addition, the directors of Metro Bank (the "**Directors**") believe that Metro Bank's brand is closely associated with its values, which emphasise customer service. Metro Bank's values could be compromised due to competitive pressures, and Metro Bank's brand could be damaged by reputational harm, which could arise by failing to address, or appearing to fail to address, a variety of issues, such as:

- poor customer service;
- technology failures;
- cybersecurity breaches and fraud;
- breaching, or facing allegations of having breached, legal and regulatory requirements, including in relation to the RWA Matter;
- committing, or facing allegations of having committed, or being associated with those who have or are accused of committing, unethical practices, including with regard to sales and trading practices by the FCA and PRA;
- litigation claims;
- failing to maintain appropriate standards of customer privacy and record keeping;
- failing to maintain appropriate standards of corporate governance;
- the failure of intermediaries and other third parties on whom Metro Bank relies, such as clearing banks, third party mortgage servicing agents or partners, to provide necessary services;
- related party transactions; and
- poor business performance.

As a result, damage to Metro Bank's brand or reputation could cause the Group to lose existing customers or fail to gain new customers, which could result in rapid and material negative operational and financial effects, including the loss of significant amounts of customer deposits.

Although Metro Bank has acquired the trade mark "Metrobank" in the UK, the "Metro" name is widely used by a variety of businesses in the UK, including other FCA-authorised businesses, and in the rest of Europe. Consequently, there is a risk that Metro Bank's trade mark registration for the word "Metrobank" and the wider use of the "Metro Bank" name (for which Metro Bank does not hold a trade mark) might be challenged by the owner of another similar trade mark. In the event that a challenge were to be successful, Metro Bank could be forced to re-brand under a new name at considerable cost and disruption to the business. In addition, the use of the "Metrobank" name by a bank which is not part of Metro Bank outside of the UK may confuse customers, and any damage to the reputation of banks operating with similar trade names could also be detrimental to Metro Bank.

An inability to manage risks relating to its brand for any reason could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank faces risks associated with the implementation of its strategy

Metro Bank has experienced an increasingly competitive environment that put pressure on its profitability and constrained its NIM. This pressure can be attributed largely to trapped liquidity of UK competitors subject to ring-fencing, macroeconomic uncertainty, continued low interest rates, increasing regulatory requirements (such as minimum requirement for own funds and eligible liabilities ("**MREL**") debt requirements) and accounting changes (such as IFRS 16). Assuming the Placing completes, Metro Bank intends to use the net proceeds of the Placing to support continued growth in lending and RWAs, while investing in the expansion of stores and new technologies. This evolved growth strategy is based on the following four key pillars: (i) balancing controlled growth, profitability and capital efficiency through an integrated customer experience, (ii) rebalancing its lending mix to optimise capital allocation and returns, (iii) expanding its range of services to create new sources of income and (iv) improving cost efficiencies.

The implementation of the evolved growth strategy is subject to a number of risks, including operational, financial, macroeconomic, market, pricing and technological challenges, and there can be no guarantee that Metro Bank will be able to achieve these goals within the timescale envisaged, or that these goals will have their desired operational effect. For example, Metro Bank had previously targeted opening approximately 100 stores by the end of 2020. Metro Bank currently has 66 stores and is targeting the opening of approximately eight stores per year until 2023 (down from a previous target of approximately 20 stores per year from 2020). Metro Bank also intends to open a further 30 stores (two of which are expected to be opened in 2019) in the North of England, the staffing of which will be funded in part by Metro Bank's grant from the C&I Fund. Metro Bank has committed to the C&I Fund to open these 30 stores by 2025 at the latest, although it is targeting their opening by the end of 2023. Metro Bank may also consider modifying its store layout, design and size to better fit future community and customer requirements. However, there can be no assurance that Metro Bank store strategy will result in its existing stores increasing their contribution to Metro Bank's profitability, and Metro Bank could further reduce its current expansion plans in light of operational, macroeconomic or other factors post having concluded the C&I investments and commitments.

The success of Metro Bank's strategy is also dependent on it significantly increasing the number of new customer accounts, either through new customer acquisition or existing customers opening new accounts. Metro Bank's strategy envisages growing deposits by approximately 20 per cent. per year over the medium-term, with an emphasis on relationship current accounts and variable deposit accounts. However, there can be no guarantee that Metro Bank will be successful in gaining the number or type of deposit accounts that it seeks, which could limit its funding base and negatively affect its loan-to-deposit ratio (the "**LTD Ratio**") targets and its profitability. For example, while Metro Bank targets maintaining an LTD Ratio of 85 per cent. to 90 per cent., its LTD Ratio was 100 per cent. as of 31 March 2019. Going forward, Metro Bank's deposit strategy could result in further periods during which its LTD Ratio is in excess of 100 per cent.

In relation to its lending business, Metro Bank will seek to shift the mix of its loan portfolio, increasing the share of lower-risk mortgages and reducing the proportion of 100 per cent. risk weighted loans relating to commercial property. However, implementing this strategy will require management to make complex judgements, including identifying suitable borrowers for the expansion of its residential mortgage book, and structuring and pricing its products competitively. In addition, Metro Bank intends to grow its unsecured lending and credit card business (at approximately 75 per cent. RWAs) for both personal and business customers, which will increase its exposure to a higher risk asset class, albeit at lower RWAs than commercial real estate.

Metro Bank also intends to expand income through new value-added services, particularly for small and medium-sized enterprises ("**SMEs**"). For example, it may broaden its online business account offerings and expand payments and cash management offerings, including launching digital tax, accounting and other fee-paying services for SMEs. However, there can be no assurance that Metro Bank will be able to price competitively, design or implement these offerings, or that its customers will take up these new services at all.

Metro Bank's strategy also depends on its ability to increase cost efficiencies across its business. As part of its updated strategy, Metro Bank is targeting a reduction of its underlying cost-to-income ratio to between 55 per cent. and 60 per cent. by 2023 (compared to levels of approximately 85 per cent. to 92 per cent. in recent periods). To achieve this, Metro Bank will need to reduce expenditures for both its back and front office functions, as well as on its stores. There can be no guarantee that any of Metro Bank's cost-saving initiatives, such as digitisation and automation programmes, will be implemented in a timely manner, or at all, or that they will produce the desired efficiencies.

Metro Bank will also need to maintain a strong capital position to support its strategic goals. In order to meet its transitional MREL by 1 January 2020, Metro Bank intends to raise up to £500 million of MREL-eligible debt in 2019. To meet its end-state MREL requirement by 1 January 2022, Metro Bank also expects to issue further MREL-eligible debt ahead of 1 January 2022. There can be no guarantee, however, that Metro Bank will be able to raise MREL-eligible debt at attractive pricing levels.

In addition to the proceeds to be raised in the Placing, Metro Bank may also pursue an additional equity capital raise in the medium-term to support its controlled growth plans. There can be no guarantee, however, that Metro Bank will be able to meet its equity fundraising targets at attractive pricing levels. If it is unable to do so, Metro Bank would be required to significantly curtail its growth plans in the medium-term until such time as it is able to support its growth organically, and/or through the securitisation or sale of certain assets.

However, if Metro Bank is unable to raise the gross proceeds referred to above which will support the foregoing strategic initiatives, Metro Bank has also prudently made plans to limit the growth of its loan book and strategic investments to ensure that its regulatory capital levels remain within its risk appetite, with a management target CET1 ratio of 12 per cent. or more.

The inability of Metro Bank to implement its strategy for any of the reasons noted above would require it to re-evaluate its strategic plans, which could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank's business is subject to risks relating to the cost and availability of liquidity and funding

The availability of retail and commercial deposits, Metro Bank's primary source of funding, may be impacted by increased competition from other deposit-takers, regulatory or reputational concerns, or factors that constrain the volume of liquidity in the market. For example, Metro Bank's average deposit growth per store, per month has fluctuated each quarter between 2016 and 2018, but dropped to a three-year low in the fourth quarter of 2018, with growth of £4.7 million per month during that period. In the first quarter in 2019, Metro Bank's average deposit growth per store, per month decreased further, with average outflows of £2.9 million, and its total deposits decreased to £15,095 million as of 31 March 2019 from £15,661 million as of 31 December 2018, in part as a result of adverse sentiment following Metro Bank's January trading update. In the medium-term, Metro Bank is targeting average deposit growth per store, per month of more than £4.0 million, or approximately 20 per cent. a year in total. Following deposit flow performance in the first quarter of 2019, total deposit growth is expected to be materially below the 20 per cent. target in 2019, which is a year of transition.

In addition, the TFS was closed to further drawdowns in February 2018. Metro Bank has TFS drawdowns that will mature in 2020, 2021 and 2022 in the amounts of £543 million, £2,778 million and £480 million, respectively, and will have to replace those funds from other sources at what may be a higher cost. Metro Bank's ability to access retail and commercial funding sources on satisfactory economic terms is also subject to a variety of factors, a number of which are outside its control, including interest rates, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system, as well as specific concerns regarding Metro Bank's financial condition. In addition, because Metro Bank operates a "savings promise" on variable products that existing customers will have access to Metro Bank's "best rate available" for each personal variable savings account, and that new customers will not receive a more favourable rate than existing customers, the cost of Metro Bank's deposit funding may be higher than that of its competitors. A loss in customer confidence in Metro Bank could also significantly increase deposit withdrawals.

Liquidity constraints may impair Metro Bank's ability to meet regulatory liquidity requirements or financial and lending commitments. Failure to manage these or any other risks relating to the cost and availability of liquidity and funding may have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank faces risks from competition

The market for financial services in the UK is highly competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which Metro Bank operates are mature, and growth by any bank typically requires obtaining market share from competitors. Competition has placed pressure on Metro Bank's NIM in recent years, particularly in 2018, when residential mortgages spreads tightened significantly, and Metro Bank's NIM decreased by 12bps in 2018. While other UK banks faced similar NIM pressures in 2018, larger UK banks generally were relatively more insulated from these declines compared to smaller banks such as Metro Bank.

Metro Bank faces competition from established providers of financial services, including banks and building societies, some of which have substantially greater scale and financial resources, broader product offerings and more extensive distribution networks than Metro Bank. In addition, Metro Bank applies the "standardised" approach to credit risk, which can overestimate the capital required for certain lending portfolios, leading to higher RWAs. Certain competitors use the internal ratings-based approach, which allows them to hold less capital against their lending than the standardised approach, thus freeing up additional capital to support additional lending to customers. Metro Bank continues to progress its advanced internal ratings-based ("**AIRB**") application and is continuing to engage with the PRA on this iterative and detailed project. While Metro Bank previously anticipated the migration to occur in the second half of 2019 with respect to its residential mortgage portfolio, based on the use and experience requirements, Metro Bank believes it is unlikely to receive PRA approval before 2021, at the earliest, and there can be no assurance that Metro Bank's application will result in approval being granted.

Historically, Metro Bank has not incurred material traditional marketing expenditure on its products and services to raise its profile in the UK banking market. However, there can be no assurance that it will not have to do so in the future to compete more effectively, which could lead to increased costs associated with acquiring new customers. Also, due to their scale, many of Metro Bank's established competitors are able to cross-subsidise their product offerings more efficiently than Metro Bank, as profits in certain businesses allow them to absorb losses for longer periods to develop other business lines. For example, more established competitors may have greater resources to devote to expanding their digital offerings than Metro Bank, which may put Metro Bank at a competitive disadvantage in attracting or retaining customers. In addition, as a result of their large established deposit and asset base, more mature, as well as international banks are often better positioned to offer cash incentives to attract new customers, as well as higher temporary "teaser" interest rates for deposits or lower temporary rates for loans to attract new customers. Metro Bank has chosen not to use either as a customer acquisition tool, focusing instead on its superior service offering.

Metro Bank also faces potential competition from new banks in the UK, banking businesses developed by large non-financial companies, from other "challenger bank" entrants, and fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms and internet-only banks.

Furthermore, Metro Bank faces competitive pressure in relation to the payment systems it uses in connection with its debit and credit cards from both established and non-traditional payments processors. Metro Bank relies on certain competitors to provide important payment clearing services, and these competitors could impose significant fees or restrictions on Metro Bank to access these systems. In addition, companies that promote disintermediation in payment systems, such as PayPal and Apple Pay, are increasingly used by customers to process merchant transactions, and these companies may capture an increased share of payment transaction revenue that would otherwise be earned by Metro Bank.

Any failure to manage the competitive dynamics to which Metro Bank is exposed could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank is exposed to risks relating to relationships with intermediaries

Metro Bank relies on its network of intermediaries, such as mortgage brokers, to originate a large portion of loans for its mortgage, invoice and asset finance portfolios. If intermediaries violate applicable regulations or standards when selling Metro Bank's products, Metro Bank's reputation could be harmed. In addition, Metro Bank may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries. Furthermore, Metro Bank could lose the services of intermediaries with whom it does business; for example, as a result of market conditions causing their closure or intermediaries switching to Metro Bank's competitors due to higher commissions or other incentives. The loss or deterioration of Metro Bank's relationships with its intermediaries could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to risks concerning customer and counterparty credit quality

Metro Bank has exposures to counterparties and obligors whose credit quality can have a significant adverse impact on Metro Bank's earnings and the value of assets on Metro Bank's balance sheet. As part of the ordinary course of its operations, Metro Bank estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to Metro Bank's results and financial condition, requires expert judgements, including forecasts of how changing macroeconomic conditions might impair the ability of customers to repay their loans. Metro Bank may fail adequately to identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors. In respect of Metro Bank's interest-only mortgage book, these assessments may be incomplete. For example, Metro Bank lacks information on customer repayment vehicles for certain of its interest-only mortgage holders. As a result, Metro Bank has reduced visibility of future repayment issues in respect of its interest-only mortgages, which limits Metro Bank's ability to estimate and establish reserves to cover exposures resulting from when customers are unable to repay interest-only loans at their maturity.

Furthermore, there is a risk that customers will be unable to meet their commitments as they fall due as a result of customer-specific circumstances, macroeconomic disruptions or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in Metro Bank's lending portfolio. Further, the impairment requirements under IFRS 9 "Financial Instruments", which Metro Bank began to apply from 1 January 2018, increased the complexity of Metro Bank's impairment modelling and are expected to result in earlier recognition of credit losses than under previous standards. Such measurements will involve increased complexity and judgement and impairment charges will tend to be more volatile and could have a material adverse effect on Metro Bank's business, financial condition and results of operations. Similarly, deterioration in customer credit quality and a resulting increase in impairments could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank's grant from the C&I Fund is subject to a number of conditions

On 22 February 2019, Metro Bank was awarded a £120 million grant from the C&I Fund, a UK scheme designed as part of measures agreed between the UK Government and the European Commission to encourage competition in the SME banking market in the wake of the 2008 financial crisis. The C&I Fund is managed by the Banking Competition Remedies Limited (the "**BCR**"), an independent fund administrator to which Metro Bank submitted a contractually binding business plan during its bid for a C&I grant. This business plan included commitments to use the grant from the C&I Fund in specific ways, for example by defining geographies and timelines for 30 new store openings by 2025 (the staffing of which will be partly funded by C&I funds, with the remaining amounts funded by a £234 million co-investment by Metro Bank) and agreeing the parameters for new digital platforms and services that Metro Bank will launch for SMEs. C&I funds must be used in accordance with the business plan that Metro Bank submitted to the BCR, and material breaches of Metro Bank's commitments in its bid could result in Metro Bank needing to repay its grant entirely, in addition to interest in the amount of 8 per cent. above the Bank of England rate (compounded quarterly). Furthermore, any changes to Metro Bank's business plan must be approved by the BCR, and if any proposed changes are rejected, Metro Bank could be asked to repay the grant (in full or part), in addition to interest at the Bank of England rate (compounded quarterly). Metro Bank is also obligated to inform the BCR of any changes to its business circumstances generally, and if the information Metro Bank provided to the BCR at the time of its bid is deemed to be inaccurate, incomplete or misleading, Metro Bank could be required to repay its grant from the C&I Fund.

In addition, in April 2019, press reports and statements from members of the UK Parliament's Treasury Select Committee indicated that the committee may open an investigation into the process by which the BCR awarded C&I grants, following complaints of an opaque decision-making process by the BCR.

If for any reason Metro Bank is required to repay all or part of the grant from the C&I Fund for any of the foregoing reasons or otherwise, its business, financial condition and results of operations could be adversely affected.

Concentration of credit risk could increase Metro Bank's potential for losses

Substantially all of Metro Bank's business relates to customers in the UK and, more specifically, predominantly those in London and the South East of England. Approximately 67 per cent. and 81 per cent.

of Metro Bank's retail mortgage portfolio and commercial lending, respectively, was concentrated in Greater London and South East England as of 31 March 2019. If a disruption to the credit markets or an adverse change in economic or political conditions were to have a disproportionate effect on London and the South East of England, Metro Bank could be exposed to greater potential losses than some of its competitors, which could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank's risk management framework and policies may not be effective

Metro Bank faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. Effective risk management requires, among other things, access to complete sets of data, robust policies, processes and controls for the accurate identification and control of a large number of transactions and events, and Metro Bank's risk management policies, processes and controls may not prove to be adequate. Metro Bank has a range of tools designed to identify, assess and manage the various risks which it faces, some of which are based on historical market behaviour. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods Metro Bank utilises for risk management are based on the evaluation of markets, customers or other information that is publicly known or otherwise available to Metro Bank. This information may not always be correct, updated or correctly evaluated.

In 2018, Metro Bank, supported by a "big four" accounting firm, undertook a review of the classification and risk-weighting of its commercial loan portfolio, which resulted in an adjustment of its RWAs in the amount of £900 million, as announced in January 2019. Following this review, the board of directors of Metro Bank (the "**Board**") instructed a "big four" accounting firm to support Metro Bank's programme of remediation, which is focused on its risk-related internal systems, processes, controls and governance. As part of that work, Metro Bank's commercial loan portfolio is being reviewed by its first, second and third lines of risk management defence (i.e., business areas, risk function and internal audit), based on a policy framework designed with external advisers. This remediation programme is expected to be completed in 2020. Metro Bank also intends to engage another accounting firm to undertake an external assurance review of its RWA calculations on a yearly basis, in the context of its Pillar 3 reporting, beginning with its full year 2019 results. However, there can be no assurance that Metro Bank's remediation programme or future external assurance reviews of its RWAs will be effective or ensure that Metro Bank's risk management framework and policies will identify or prevent future errors in the application of risk-weightings to its loan book.

It is difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on Metro Bank's financial performance and business operations, particularly in periods of unusual or extreme market conditions. If Metro Bank's risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank is exposed to operational risks in the event of a failure of its information technology ("IT") systems, and Metro Bank relies on third parties for significant elements of its IT and other middle and back office processes

Metro Bank's business is dependent on processing a high volume of complex transactions across numerous and diverse products and services accurately and efficiently. Metro Bank also depends on technology to maintain its reputation for quickly and seamlessly processing customer requests, including account openings, payments and transfers. As a result, any weakness in Metro Bank's IT systems, online or mobile banking platforms, or operational processes could have an adverse effect on its ability to operate its business and meet customer needs.

While Metro Bank has disaster recovery and business continuity contingency plans in place, an incident resulting in interruptions, delays, the loss or corruption of data or the cessation of systems can still occur. Metro Bank also periodically upgrades its existing systems, and problems implementing these upgrades may lead to delays or loss of service to Metro Bank's customers, as well as an interruption to its business, which could expose Metro Bank to potential liability.

In addition, Metro Bank outsources significant elements of its IT and network functions and some of its middle and back office processes, such as telephony infrastructure and data centre infrastructure, to third parties. Metro Bank also relies on certain third party vendors, such as Temenos Group AG ("**Temenos**") for its core banking engine software, Pepper Group Limited for its mortgage servicing software, Microsoft for a variety of operational software and a series of third parties to support the infrastructure for its debit and credit cards. In addition, Metro Bank relies on third parties for the provision of clearing services. If these third parties were unable to deliver their services to Metro Bank in a timely manner and in accordance with Metro Bank's specifications, Metro Bank's ability to meet its customer service levels could be compromised. In addition, Metro Bank intends to implement an upgrade of T24, the core banking technology product of Temenos that Metro Bank launched in 2010, in order to increase business capability and operational resiliency. Although there have been several test launches, as well as internal and external reviews completed on the programme's readiness and approach, there can be no guarantee that the upgrade process will produce its intended results, or that Metro Bank will not experience significant IT disruptions, customer service or other issues during or after the upgrade process is complete.

Metro Bank's systems are also vulnerable to damage or interruption from other factors beyond its control, such as floods, fires, power loss, telecommunications failures and other similar events. In addition, any breach in the security of Metro Bank's systems, for example from sophisticated attacks by cybercrime groups, such as the so-called SS7 attack that exploited a security vulnerability in text messages sent by Metro Bank to its customers in early 2019, could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure, as well as damage to Metro Bank's reputation.

Metro Bank's operations must be considered in the light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of development. Metro Bank expects to continue to introduce new IT systems and upgrades as its business expands, and there can be no guarantee it will be able to efficiently implement these changes efficiently or cost effectively, or that its current IT systems will have sufficient scalability to support Metro Bank's planned controlled growth. Any actual or perceived inadequacies, weaknesses or failures in Metro Bank's IT systems or processes could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank must comply with data protection and privacy laws and may be targeted by cybercriminals

Metro Bank's operations are subject to a number of laws relating to data privacy and protection, including the Data Protection Act 1998, the Privacy and Electronic Communications (EC Directive) Regulations 2003 and the General Data Protection Regulation (the "**GDPR**"). The requirements of these laws may affect Metro Bank's ability to collect, process and use personal, employee and other data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to Metro Bank. Enforcement of data privacy legislation has become increasingly frequent and could result in Metro Bank being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings (including criminal proceedings) initiated by the Information Commissioner's Office in the UK. In addition, any enquiries made, or proceedings initiated by, individuals or regulators may lead to negative publicity and potential liability for Metro Bank. Metro Bank must also comply with the Payment Card Industry Data Security Standards in respect of any data collected, transferred or processed in respect of any customer payments from branded payment cards. Non-compliance with these standards may lead to Metro Bank facing fines (which, in the case of the GDPR, can be up to the higher of 4 per cent. of annual turnover or €20 million for serious breaches or 2 per cent. of annual turnover or €10 million for other specified infringements), increased card handling fees or withdrawal of payment processing services in the future.

The secure transmission of confidential information over the internet and the security of Metro Bank's systems are essential to its maintaining customer confidence and ensuring compliance with data privacy legislation. If Metro Bank or any of its third party suppliers fails to transmit customer information and payment details online securely, or if they otherwise fail to protect customer privacy in online transactions, or if third parties obtain and/or reveal Metro Bank's confidential information, Metro Bank may lose customers and potential customers may be deterred from using Metro Bank's products and services, which could expose Metro Bank to liability and could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank may suffer loss as a result of fraud, theft or cybercrime

As a financial institution, Metro Bank is subject to a heightened risk that it will be the target of criminal activity, including fraud, theft or cybercrime. For example, Metro Bank is exposed to potential losses due to breaches of its terms of business by its customers (e.g., through the use of a false identity to open an account) or by customers engaging in fraudulent activities, including the improper use of legitimate customer accounts. In addition, losses arising from staff misconduct may result from, among other things, failure to document transactions properly or obtain proper internal authorisation in an attempt to defraud Metro Bank, or from physical theft at Metro Bank's stores.

There also can be no assurance that Metro Bank's systems will not be subject to attack by cybercriminals, including through denial of service attacks, which could significantly disrupt Metro Bank's operations. For example, in late 2018, Metro Bank, along with many other UK banks, was subject to a cyberattack in which criminals penetrated a secondary layer of IT security to obtain codes sent via text messages to customers to verify transactions. The criminals then used these codes to access a small number of customer accounts.

Fraud, theft or cybercrime are difficult to prevent or detect, and Metro Bank's internal policies to mitigate these risks may be inadequate or ineffective. Metro Bank may not be able to recover the losses caused by these activities or events, and it could suffer reputational harm as a result of them, either of which could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank is subject to risks associated with its hedging, treasury operations and investment securities portfolio, including potential negative fair value adjustments

Metro Bank faces risks relating to its hedging operations. Metro Bank benefits from natural offsetting between certain assets and liabilities, which may be based on both contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, Metro Bank engages in limited hedging activities to, for example, limit the potential adverse effect of interest rate fluctuations on its results of operations, to the extent that the assets and liabilities it originates do not create a natural offset to one another. However, Metro Bank does not hedge all of its risk exposure and cannot guarantee that its hedging strategies will be successful due to factors such as behavioural risk, unforeseen volatility in interest rates or decreasing credit quality of hedge counterparties in times of market dislocation. If its hedging strategies are not effective, Metro Bank may be required to record negative fair value adjustments. Losses from the fair value of financial assets could also have a material adverse effect on Metro Bank's capital ratios.

Through its treasury operations, Metro Bank holds liquid asset portfolios for its own account, exposing Metro Bank to interest rate risk, basis risk and credit spread risk. Under volatile market conditions, the fair value of Metro Bank's liquid asset portfolios could fall more than estimated and cause Metro Bank to record mark-to-market losses. In addition, as of 31 March 2019, Metro Bank had investment securities of £3,339 million (31 December 2018, £4,132 million; 31 December 2017, £3,915 million; 31 December 2016, £3,227 million), comprising investment-grade investments in residential mortgage-backed securities, UK government bonds, covered bonds and bonds issued by corporates and financial institutions. Despite the conservative nature of its investment securities portfolio, there can be no guarantee that the value of Metro Bank's investment securities portfolio will not decrease. In a distressed economic or market environment, the fair value of certain of Metro Bank's holdings and exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then prevailing market conditions, may result in significant negative changes in the fair value of Metro Bank's exposures and holdings.

Interest rate insensitive balances, for example current accounts, form a significant part of Metro Bank's funding. Metro Bank assumes that these balances will have a maturity in excess of five years. However, if customer behaviour were to change significantly, these balances may become more volatile, which could have a material adverse effect on the revenue generated by these balances.

Any inability of Metro Bank to effectively manage its hedging, treasury operations or investment securities could have a material adverse effect on its business, financial condition and results of operations.

Metro Bank could fail to attract or retain senior management or other key colleagues

Metro Bank's success depends on the continued service and performance of its key colleagues, particularly its senior management, and its ability to attract, retain and develop high-calibre talent appropriate for the increasing scale and complexity of its business. Metro Bank may not succeed in attracting and retaining key personnel if they do not identify or engage with Metro Bank's brand and values, or due to reputational or regulatory issues. In addition, while it may become desirable to augment its senior management team with personnel possessing skills and experience from larger financial institutions, Metro Bank may be unable to attract qualified candidates. Furthermore, external factors such as macroeconomic conditions, the developing and increasingly rigorous regulatory environment in which Metro Bank operates, changes to work permit and visa rules, or negative media attention on the financial services industry may adversely impact Metro Bank's ability to attract and retain staff.

Furthermore, the successful launch and management of Metro Bank's early stage operations is a significant achievement for Metro Bank's senior management team. This unique experience may make them more attractive to Metro Bank's competitors or other institutions who may seek to hire them, and Metro Bank may be unable to find qualified replacements.

In addition, the Capital Requirements Directive IV (2013/36/EU) (as implemented in the UK through applicable regulatory rules which in relation to, Metro Bank, will be set out in the PRA Rulebook and other PRA publications) and the Capital Requirements Regulation (together "**CRD IV**") requires the UK to impose restrictions on the remuneration of certain bank staff, including a cap on bonuses and a requirement that variable remuneration be subject to risk adjustment and be partially deferred. These restrictions have been implemented through a revised PRA Remuneration Code. There continues to be political pressure for further regulation of remuneration for individuals working in the financial services sector, including banking executives. Under the new regime for senior managers (introduced in the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**")), which came into force on 7 March 2016, individuals carrying out positions of significant influence at banks are individually responsible for defined areas of the business and can be held to account by the PRA and FCA on that basis. The Banking Reform Act also introduced a new criminal offence applicable to senior managers of reckless mismanagement resulting in a bank failure (punishable by a maximum seven years' imprisonment). These types of legislation, regulation and rules (including the PRA Remuneration Code) may reduce the willingness of potential executive directors and senior colleagues to provide their services to Metro Bank.

Any failure to attract and retain appropriately qualified colleagues, including senior management, for the scale and complexity of Metro Bank's business could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank's business model requires the lease or purchase of suitable premises for stores

Metro Bank's business strategy depends on securing leases, which are typically long term, or purchasing premises in prime locations for its store network. However, competition for these types of properties is likely to be significant, and Metro Bank cannot be certain it will be able to secure its premises of choice or necessary planning approvals. As noted above, Metro Bank's grant from the C&I Fund requires it to open 30 stores in the North of England by 2025 at the latest. Any future inability to obtain additional suitable leases or purchases for its properties, including in accordance with its grant from the C&I Fund, could have a material adverse effect on the success of Metro Bank's growth strategy and its business, financial condition and results of operations.

Metro Bank does not control certain internet domain names similar to its own

Metro Bank owns and uses the domain "www.metrobankonline.co.uk". Metro Bank purchased the registered trade mark "Metrobank" from an individual who also owns the internet domain "www.metrobank.co.uk" (which was not acquired by Metro Bank). When Metro Bank bought the registered trade mark, it entered into an agreement that provided Metro Bank would not attempt to use its rights in the registered trade mark to gain control of the internet domain. As a result, Metro Bank cannot control who might purchase the domain or the purpose for which it might be used. In addition, the domain "www.metrobank.com" belongs to a third party and is used to provide links to a variety of financial and diverse services and offerings in the Philippines. Metro Bank's inability to control these domains, or others with similar names to that of its own, could have a material adverse effect on Metro Bank's reputation, business, financial condition and results of operations.

Metro Bank is subject to changes in taxation laws

Metro Bank's activities are conducted in the UK and, consequently, it is subject to a range of UK taxes. Revisions to tax legislation or to its interpretation could result in increased tax rates (including in relation to UK corporation tax rates) or additional taxes. For example, a bank surcharge of 8 per cent. was introduced in the UK from 1 January 2016. In addition, Metro Bank is subject to periodic tax audits, which could result in additional tax assessments relating to past periods.

Adverse changes in tax laws, and any other reform amendment to, or changes in the interpretation or enforcement of, applicable tax legislation (including in relation to the recognition of deferred tax assets) that negatively impact Metro Bank or its customers could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Regulatory Risks

Metro Bank operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years

Metro Bank, in common with other financial services firms, has in recent years faced increased levels of scrutiny from regulators in respect of the conduct of its business. Following the financial crisis, this scrutiny has been supplemented by additional powers intended to protect consumers and ensure redress. Metro Bank's principal regulators are the PRA (which is responsible for prudential regulation) and the FCA (which is responsible for conduct regulation).

The FCA, Metro Bank's conduct regulator, has highlighted priorities such as developing payments sector strategy and improving competition in current accounts and cash savings markets as key for the retail banking sector in its recent Business Plan for 2018 and 2019. In addition, the FCA is currently undertaking a series of thematic reviews, and recently published its final report of its strategic review of retail banking business models. Metro Bank provided information disclosure in relation to this FCA review. The FCA intends to initiate three strands of work following this review, including on-going monitoring of retail banking business models; analysis to understand the value chain in new payment services business models; and exploratory work to understand certain aspects of SME banking. Any action that the FCA may take in relation to these, or recommendations it may make in relation to any of its other thematic reviews, could impact Metro Bank's business (although given the early stages of this process, Metro Bank is currently unable to assess their potential impact, if any, on its business).

Since April 2014, the FCA has also been charged with oversight of regulated consumer credit activities, providing it with broad regulatory authority over a wide range of aspects of Metro Bank's lending business, such as the format and content of its customer communications and its terms of business. The FCA is empowered to require firms to operate a consumer redress scheme, under which the firm is required to make redress to customers where it has failed to carry on its activities in accordance with its legal or regulatory obligations. The FCA also has temporary product intervention powers, which enable it to restrict certain products, product features or their promotion for up to 12 months without consultation. Certain consumer bodies have the power to refer so-called “super-complaints” to the FCA for further investigation as well.

Most banking customers are also entitled to refer complaints to the Financial Ombudsman Service (the “FOS”), and recent years have seen an increase both in the number of cases referred to the FOS and general public awareness regarding the ability to challenge firms. There has also been an increase in sophisticated social engineering frauds across remote channels in circumstances where fraudsters have imitated bank colleagues resulting in customers compromising their security credentials.

More recently, the FOS has increasingly found in favour of customers and asked banks to provide refunds irrespective of the circumstances and degree of carelessness by the customer. While Metro Bank is working on a number of initiatives which will help reduce these types of social engineering frauds, there is a risk that, because the FOS interpretation of social engineering cases is that they do not constitute gross negligence by customers falling victim to such frauds, higher numbers of customers will challenge Metro Bank's determination of liability in such cases, giving rise to potentially increased losses.

The PRA and FCA can apply a wide range of sanctions to firms such as Metro Bank (and individuals working for these firms) if they are found to be operating in breach of their regulations, or in a manner deemed to pose a significant risk to their statutory obligations, including public or private censure, fines, regulatory proceedings and, in extreme cases, suspension or withdrawal of authorisation to operate particular parts of their business or prosecution. Investigating and dealing with proceedings, including those relating to the RWA Matter, making redress, and the cost of any regulatory sanctions may involve significant expense. The use of product intervention powers by the FCA may restrict Metro Bank's operations and its ability to offer new products to its customers. In any case, adverse publicity relating to regulatory action could undermine customer confidence in Metro Bank and reduce demand for its products and services, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to a legislative framework governing mortgages

The EU Directive on credit agreements relating to residential property, commonly known as the Mortgage Credit Directive ("**MCD**"), entered into force in the UK from 21 March 2016. Changes to the UK's existing mortgage regulation included amendment of the definition of "regulated mortgage contract" to include second charge lending, bringing the regulation of second charge mortgage lending into line with first charge lending (rather than it being regulated under the FCA's Consumer Credit regime), and the establishment of a framework for regulating buy-to-let mortgage lending to consumers. Implementation of the MCD led to a drop in demand for residential property mortgages in the UK. The European Commission has also indicated that it will be carrying out further work around mortgage foreclosure, default and underwriting requirements and the MCD itself provides for a review after five years. Future changes to the way in which the mortgage market will be regulated in the UK might adversely impact Metro Bank's mortgage underwriting business and, more generally, have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to prudential regulatory capital and liquidity requirements

The prudential regulatory capital and liquidity requirements applicable to banks have increased significantly over the last decade, largely in response to the financial crisis but also as a result of continuing work undertaken by regulatory bodies in the financial sector subject to certain global and national mandates. The prudential requirements are likely to increase further in the short-term, not least in connection with ongoing implementation issues as noted further below, and it is possible that further regulatory changes may be implemented in this area in any event.

The prudential regulatory capital and liquidity requirements to which Metro Bank is subject are primarily set out in CRD IV. In addition, Metro Bank is subject to additional requirements imposed by the PRA to the extent not inconsistent with CRD IV.

Although many of the measures in CRD IV took effect in the UK from 1 January 2014, some of the measures were phased in over a transitional period ending on 31 December 2018, though such phased implementation was in some cases subject to the PRA's right (which it largely exercised) to apply an expedited timeframe. In particular, the liquidity regime was phased in, though a significant part of it, the net stable funding ratio ("**NSFR**"), is subject to further review and more detailed development. In February 2018, the Basel Committee revised the credit risk framework for calculating credit RWAs under both the standardised approach and the internal ratings-based approach, and in January 2019 finalised revised minimum capital requirements for the market risk framework. It is expected that these changes will take effect from 1 January 2022.

In addition, CRD IV requirements adopted in the United Kingdom or the way those requirements are interpreted or applied may change, including as a result of binding regulatory or implementing technical standards or guidance to be developed by the European Banking Authority (the "**EBA**"), changes to the way in which the PRA interprets and applies these requirements to UK banks or further changes to CRD IV agreed by EU legislators. Similarly, there may be changes to national prudential requirements which apply to banks. These changes, either individually or in aggregate, may lead to further unexpected enhanced prudential requirements in relation to Metro Bank's capital, leverage, liquidity and funding ratios and requirements. It is noted that there are a number of initiatives underway which, if implemented, could also affect prudential capital and liquidity requirements in the future. For example, the Basel Committee has proposed changes to the calculation of interest rate risk in the banking book.

Metro Bank sets its internal target amount of capital and liquidity based on PRA guidance and following an assessment of its risk profile, market expectations and regulatory requirements in relation to both capital and liquidity. Metro Bank may experience a depletion of its capital resources through increased costs or liabilities incurred, or a recalculation based on adjustments to its credit risk calculations, as a result of the crystallisation of any of the other risks described elsewhere in this "*Risk Factors*". If, for example, market expectations as to capital levels increase, driven by, for example, the capital levels or targets among peer banks, or if new regulatory requirements are introduced, Metro Bank may experience pressure to increase its capital ratios. An analogous risk applies in relation to liquidity.

Due to its expected growth, Metro Bank's capital requirements are likely to increase. If Metro Bank fails to meet its minimum regulatory capital or liquidity requirements, it may be subject to administrative actions or sanctions. In addition, a shortage of capital or liquidity could affect Metro Bank's ability to pay liabilities as they fall due, pay future dividends and distributions, and could affect the implementation of its business strategy, impacting future growth potential.

As of 1 January 2018, Metro Bank implemented IFRS 9 "Financial Instruments". IFRS 9 led to a one-off increase in impairment allowances for certain financial assets in Metro Bank's balance sheet at the time of adoption, such as an increase for the provision for loan losses from £14 million as at 31 December 2017 to £37 million at 1 January 2018. However, the European Commission has implemented transitional arrangements to mitigate the full impact of IFRS 9 on expected credit losses on regulatory capital over a five-year transition period, commencing 1 January 2018. IFRS 9 could, however, lead to a negative impact on Metro Bank's regulatory capital as the transition period expires. In addition, as of 1 January 2019, Metro Bank implemented IFRS 16 "Leases", which requires lessees to recognise assets and liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a result of these accounting changes, Metro Bank's RWAs have increased by approximately £313 million.

Any inability of Metro Bank to maintain its regulatory capital or liquidity requirements, or any legislative or accounting changes that limit Metro Bank's ability to manage its capital effectively may have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to rules relating to resolution planning and regulatory action which may be taken in the event of a bank failure

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers were granted to HM Treasury, the Bank of England, the PRA and the FCA (together the "**Authorities**") as part of the special resolution regime (the "**SRR**"). These powers enable the Authorities to engage with and stabilise UK-incorporated institutions authorised to accept deposits that are failing or are likely to fail.

The Banking Act was amended to give effect to aspects of the EU-wide framework for the recovery and resolution of credit institutions and investment firms, commonly known as the Banking Recovery and Resolution Directive (the "**BRRD**"), including expanding the powers available to the Authorities thereunder. As a result, the SRR now consists of the following five stabilisation options, which could be imposed on any bank, including Metro Bank: (i) transfer of all or part of the business of the relevant bank entity or the shares of the relevant bank entity to a third party private sector purchaser; (ii) transfer of all or part of the business of the relevant bank entity to a "bridge bank" established and wholly owned by the Bank of England; (iii) transfer of the assets, rights and liabilities of the relevant bank entity to an asset management vehicle created and part owned by the Bank of England or Treasury; (iv) temporary public ownership of the relevant bank entity; and (v) bail-in, which effectively allows the relevant bank entity to be recapitalised through the writing down or conversion of debts and other liabilities to equity, including to zero (the "**bail-in tool**"). In relation to the transfer stabilisation options in (i) to (iv) above, the Authorities also would have the ability to modify or vary certain contractual arrangements of the relevant entity in certain circumstances, including for example the maturity date of securities.

In addition, as a result of the BRRD, the Banking Act was amended to require that loss absorbing capital instruments are written down or converted before or at the same time as any of the stabilisation options are implemented (the "**mandatory write-down and conversion power**").

Subject to certain protections for limited liabilities, the bail-in tool and the mandatory write-down and conversion power enable the Authorities to write down or dilute the claims of shareholders of a failing institution, including to zero, and to write-down or convert unsecured creditors and to convert unsecured debt claims to equity of such institution. The bail-in rules were designed to help ensure that the shareholders and unsecured creditors of a failed institution (rather than taxpayers) meet the costs of an institution's failure. In the UK, a bail-in would be effected by the Bank of England as resolution authority with no need for court approval, and a bail-in order cannot be challenged in court (although it is subject to judicial review). The BRRD rules were largely implemented in the UK with effect from January 2015 (except in relation to certain requirements relating to the contractual recognitions of bail-in and MREL referred to below which came into force in January 2016). If Metro Bank were to become subject to bail-in or resolution powers or subject to the mandatory write-down and conversion power, existing shareholders may experience a dilution or cancellation of their holdings and holders of debt securities may be subject to write-off or conversion. Some provision is made in the Banking Act for compensation orders to be made in certain specified circumstances but the extent of the compensation will be determined having regard to the particular fact matrix and the principles set out in the Banking Act (including that the "no creditor worse off" safeguard would not apply in relation to an application of such powers in circumstances where resolution powers are not also exercised). Subject to the foregoing, these principles essentially require that no shareholder or creditor should be worse off under an SRR process than it would have been under a hypothetical insolvency, which means that it is not certain that compensation would be received in a particular case.

Although the BRRD also makes provisions for public financial support to be provided to an institution on resolution subject to certain conditions, it provides that the financial public support should only be used as a last resort after the Authorities have assessed and exploited, to the maximum extent practicable, all the resolution tools, including the bail-in power. Accordingly, it is unlikely that investors in the Shares will benefit from such support even if it were provided.

Institutions subject to BRRD are also required to meet an MREL of eligible instruments which are capable of being bailed-in. The MREL requirement is equal to a percentage of total liabilities and own funds to be set by the Bank of England. Items eligible for inclusion in MREL include an institution's own funds (including the Shares) along with other, more senior 'eligible liabilities' in the form of debt instruments. In June 2018, the Bank of England published its revised Statement of Policy (updating a November 2016 version) (the "**MREL SoP**") for exercising its powers to direct UK banks to maintain MREL. Pursuant to the MREL SoP, the Bank of England sets MREL for individual institutions by reference to three broad resolution strategies: (i) 'modified insolvency process' under Part 2 of the Banking Act – for those institutions which the Bank of England considers not to provide services of a scale considered critical and for which it is considered that a pay-out by the Financial Services Compensation Scheme ("**FSCS**") of covered depositors would meet the Bank of England's resolution objectives; (ii) 'partial transfer' – for those institutions which the Bank of England considers to be too large for a modified insolvency process but where there is a realistic prospect that critical parts of the business could be transferred to a purchaser; and (iii) 'bail-in' – for the largest and most complex institutions, which will be required to maintain sufficient MREL resources to absorb losses and, in the event of their failure, be recapitalised so that they continue to meet the PRA's conditions for authorisation and the institution (or its successor) is able to operate without public support.

Furthermore, the MREL SoP also specified indicative thresholds which it would use to determine which resolution strategy would apply to individual institutions: institutions with fewer than 40,000 to 80,000 'transactional accounts' – i.e., those with at least nine withdrawals over the previous three months – would likely be subject to the modified insolvency process; institutions with more than 40,000 to 80,000 transactional accounts would be likely to be subject to a partial transfer strategy; and institutions with assets exceeding a threshold of £15 billion to £25 billion would be likely to be subject to a bail-in strategy. As part of the MREL SoP, the Bank of England confirmed that, in most cases, it will make use of the transition period allowed by the BRRD and the final EBA regulatory technical standards on the criteria for determining MREL to require institutions to comply with an interim MREL from 1 January 2020 and an end-state MREL from 1 January 2022 (subject to review by the end of 2020). Until such time as interim MREL applies, the MREL SoP also states that an institution's MREL will be equivalent to its minimum regulatory capital requirements. The MREL SoP also specified that capital buffers must be met in addition to MREL.

From 1 January 2020, Metro Bank (being a non-systemic bail-in firm for the purposes of the MREL SoP) will have to hold interim MREL equal to 18 per cent. of its RWAs, before regulatory buffers. To meet this interim MREL requirement by 1 January 2020, Metro Bank intends to raise MREL-eligible debt of up to £500 million in 2019. From 1 January 2022, Metro Bank will have to comply with its end-state MREL requirement, which will be equal to the higher of two times its Pillar 1 and Pillar 2A requirement (2x (Pillar 1 +Pillar 2A)) or two times its leverage ratio requirement (2x(LR)) (assuming the latter will apply to Metro Bank at the time). As discussed in more detail below, by 1 January 2022, Metro Bank will be required to establish a non-operating bank holding company, which will be the resolution entity and will issue external MREL to the market to achieve structural subordination. To meet its end-state MREL requirement by 1 January 2022, Metro Bank expects to issue further MREL-eligible debt ahead of this date. The cost of funding of these MREL debt issuances could be higher than that which Metro Bank might otherwise have incurred if it were not subject to the relevant MREL requirements, which could have an impact on its costs and capital requirements.

To facilitate bail-in and resolution strategies, the Bank of England has indicated through statements of policy that UK bank holding companies must meet certain structural requirements, in particular relating to structural subordination, by 1 January 2022. To meet these requirements, Metro Bank will create a new holding company, which, among other things, could have adverse tax consequences, including adverse capital gains tax consequences for U.S. shareholders of the Company who hold more than 5 per cent. of the Shares (unless the holder enters into a gain recognition agreement with the United States Internal Revenue Service (the "**IRS**"), holds shares in the new holding company for at least six years after the new holding company is inserted, and meets certain other requirements), as the insertion of the new holding company could be treated as a deemed disposal and result in an immediate tax charge independent of any actual disposal of the Shares.

Finally, the BRRD and associated legislation requires that certain claims of certain depositors and the FSCS (to the extent it covers claims of depositors in a bank insolvency resolution) are given preferential status in the bank insolvency resolution. Where Metro Bank has large numbers of depositors entitled to FSCS protection, this means those depositors and the FSCS will get preferential treatment ahead of other unsecured creditors generally.

In addition, the Banking Reform Act introduced a ring-fence around retail deposits held by large UK banks with the aim of separating certain core banking services critical to individuals and SMEs from wholesale investment banking services. The ring-fencing regime intends to implement the core recommendation of the Independent Commission on Banking that UK banks should ring-fence their retail and SME deposit-taking businesses in certain financially independent legal entities which are separate and distinct from certain designated trading and banking activities. Secondary legislation setting out the detail of the ring-fencing regime exempts from ring-fencing those banks whose "core deposits" (as defined in the secondary legislation) do not exceed £25 billion as a rolling average over a three-year period. The impact of ring-fencing on the Group may, in the future, result in increased compliance costs or restrictions in some areas of business, such as in investments made or products offered. For example, the ring-fencing rules have increased competition and margin pressure in the UK residential mortgage market. These and similar consequences could have an adverse impact on the Group's financial condition and results of operations.

Metro Bank must comply with anti-money laundering, anti-bribery and sanctions regulations

Metro Bank is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit Metro Bank, its staff or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules creates a significant financial and operational burden for banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more aggressive, resulting in several landmark fines against UK financial institutions. The FCA, in particular, has highlighted anti-money laundering and the prevention of financial crime as priorities in its Business Plan. Furthermore, following the entry into force of the EU AML Directive and Transfers of Funds Regulation on 25 June 2015, new regulations came into force in the UK on 26 June 2017, which impacted the scope of the regulatory requirements Metro Bank must comply with.

In November 2017, on advice of external legal counsel, Metro Bank notified OFAC that it had discovered that a UK-based entity with which it had a banking relationship was subject to U.S. sanctions relating to Cuba. Metro Bank ended its relationship with the relevant entity. In addition, in 2019, Metro Bank discovered that a payment made to one of its customer's accounts, which it had received from a UK-based financial institution, had been routed to the UK-based financial institution from Iran. A review of the foregoing matters, together with a review of Metro Bank's sanctions compliance policies, has been initiated by Metro Bank with the support of external advisers.

While Metro Bank monitors its regulatory environment, it is not always possible to predict the nature, scope or effect of future regulatory requirements to which it might be subject, and in particular, the manner in which existing laws might be administered, interpreted or enforced. Although Metro Bank believes that its current policies, processes and procedures are adequate and effective, and therefore, comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that these policies eliminate the risk of money laundering, sanctions breaches or bribery, including actions by Metro Bank's staff, for which Metro Bank might be held responsible. Any of these events may have severe consequences, including criminal sanctions, fines, restrictions on its business operations and reputational damage, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to rules on deposit guarantee schemes

In Europe, the EU Deposit Guarantee Scheme Directive ("**EU DGSD**") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the EU DGSD. The main aims of the recast EU DGSD were to restrict the definition of "deposit", to exclude deposits made by certain financial institutions and certain public authorities, to reduce time limits for payments of verified claims to depositors and to make provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD allowed for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The new rules on depositor protection rules and supervisory statements took effect in the UK from 3 July 2015.

It is possible, as a result of the directive and subsequent UK implementation, that future FSCS levies on Metro Bank may differ from those at present, and such reforms could result in Metro Bank incurring additional costs and liabilities. In particular, Metro Bank has updated its IT systems to comply with the PRA's new system requirements, including requirements on firms to have systems that will allow accounts that do not contain eligible deposits to be frozen at the point of resolution while leaving marked deposits accessible and will be able to separate FSCS-covered and uncovered balances.

Metro Bank is subject to regulatory changes in relation to payment services

In July 2013, the European Commission proposed a revised payment services directive ("**PSD II**") to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market (the Payment Services Directive) that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. The text of the Directive was published in the Official Journal of the EU (OJ) on 23 December 2015 and came into force on 12 January 2016.

The Payment Services Regulations 2017, which implement PSD II in the UK, came into force on 13 January 2018, with further requirements being introduced throughout 2019. Among other things, the new rules include a requirement to grant certain regulated third parties access to customer accounts and information. The regulations also introduce stronger customer authentication requirements and enhanced consumer protection obligations. This has created additional compliance and operational burdens for Metro Bank (including potential consequences for breach).

The Banking Reform Act required the FCA to establish a body corporate to regulate payment systems (the "**Payment Systems Regulator**"). The powers of the Payment Systems Regulator came into force in 2015, following its creation by HM Treasury. Its numerous objectives include the promotion of effective competition in the markets for payment systems and services – between operators, payment service providers and infrastructure providers. There is therefore uncertainty as to the ongoing impact the Payment Systems Regulator will have on banks and interbank systems, which could impact on Metro Bank's future operations.

Risks relating to the Placing

Prospective investors and Shareholders should be aware that the market price of the Shares may fluctuate significantly

The market price of the Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Shares (or securities similar to them), including, in particular, in response to various facts and events, including any regulatory changes affecting Metro Bank's operations, variations in Metro Bank's operating results and/or business developments of Metro Bank and/or its competitors. For example, the market price of the Shares has fluctuated significantly following press coverage of the RWA Matter.

In addition, stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Company's operating performance or prospects, such as the operating and share price performance of other companies that investors may consider comparable to Metro Bank, speculation about Metro Bank in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in other countries, whether or not Metro Bank derives significant revenue therefrom. Furthermore, Metro Bank's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Shares, which could result in investors in the Placing being unable to sell their Shares for a profit.

Investors may be subject to exchange rate risk

The New Shares are priced in pounds sterling. Accordingly, any investor outside the United Kingdom is subject to adverse movements in its local currency against pounds sterling.

Metro Bank may not pay dividends

Although Metro Bank does not intend to pay dividends in the near term, as a matter of applicable company law, Metro Bank may only pay dividends if and to the extent that, among other requirements, it has distributable reserves and sufficient cash available for this purpose. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and with the approval of regulators and will depend on, among other things, Metro Bank's financial position, general economic conditions and other factors the Directors deem significant from time to time. As a result, there can be no assurance that Metro Bank will pay dividends in the future.

Most Shareholders will experience dilution in their ownership Metro Bank as a result of the Placing

The economic and voting interests (as a percentage of the Enlarged Share Capital) of Shareholders who do not participate in the Placing will be diluted as a result of the Placing. Even if a Shareholder participates in the Placing, his interests in Metro Bank may still be diluted (depending on the size of his participation in the Placing).

Shareholders outside the United Kingdom may not be able to subscribe for New Shares in the Placing

In the case of an allotment of Shares for cash, Shareholders have certain statutory pre emption rights (unless those rights are disapplied by a special resolution of the Shareholders at a general meeting) and such a non-pre-emptive issue could dilute the interests of Shareholders. Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Shareholders in the Placing. The Placing will not be registered under the Securities Act. Securities laws of certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out by the Company. Shareholders who have a registered address in or who are resident in, or who are citizens of, countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their New Shares.

Any future issue of Shares will further dilute the holdings of Shareholders and could adversely affect the market price of Shares

Other than pursuant to the Placing, Metro Bank has no current plans for an offering of Shares in the short-term, apart from possible issues in relation to certain of the Share Schemes. However, it is possible that Metro Bank may decide to offer additional Shares in the future either to raise capital or for other purposes. If Shareholders of Metro Bank do not take up such offer of Shares or are not eligible to participate in such offering, their proportionate ownership and voting interests in Metro Bank would be reduced and the percentage that their Shares would represent of the total share capital of Metro Bank would be reduced accordingly. An additional offering, or significant sales of Shares by major Shareholders, could have a material adverse effect on the market price of Shares. Pursuant to the Placing Agreement, the Company will be locked up for 180 days.

It may not be possible to effect service of process upon the Company or the Directors or enforce court judgments against the Company or the Directors

The Company is incorporated in England and Wales. Most of the Company's assets are located in the United Kingdom. As a result, it may not be possible for investors outside of the United Kingdom to effect service of process against the Company or the Directors or to enforce the judgment of a court outside the United Kingdom against the Company or the Directors.

LETTER FROM THE CHAIRMAN OF METRO BANK PLC

Registered Office:
One Southampton Row
London WC1B 5HA

17 May 2019

Dear Shareholder,

1. Introduction

Vernon W. Hill, II founded Metro Bank in 2010 as the first full-service, independent, new High Street bank to open in the UK in more than 100 years. Metro Bank uses a disruptive, service-led, deposit-driven funding model and a customer service proposition that emphasises simple, straightforward banking in order to turn its customers into "FANS".

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 66 stores principally across London and the South East of the UK but of late have also expanded into the Midlands, East Anglia and the South West. Metro Bank has approximately 1.7 million customer accounts, £15.1 billion in deposits from customers and £15.2 billion of gross loans and advances to customers as of 31 March 2019.

Metro Bank believes that its competitive advantage lies in the delivery of a superior service-led integrated customer experience across all channels allied with a customer first culture that offers simple products and fair pricing. Driven by and reflective of this Metro Bank's stores are open seven days a week, early morning until late. The Directors believe a core feature of its unique approach is giving customers the choice of how they interact with Metro Bank and as such customer service is designed to be an integrated proposition across physical, remote and digital channels. The Company supports 24/7 telephony as well as a strong digital and mobile banking platform. Evidence of this integrated approach resonating with customers is supported by data analysis which suggest that 66 per cent. of customers used a store in 2018 and that 33 per cent. of current account holders used both a physical store and the digital experience in a 90-day period surveyed in 2018.

Reflecting the strength of its customer service-led proposition, Metro Bank was recently voted first in the UK for personal current accounts and second in the UK for business current accounts by the CMA Service Quality Surveys published in February 2019.

A core strength of the Group is its ability to raise low-cost, sticky deposits. Metro Bank has grown this deposit base from approximately £5.1 billion in 2015 to £15.1 billion as at 31 March 2019, representing a compound annual growth rate of approximately 40 per cent. over the period. In this same period the Group has grown its loan book from £3.5 billion to £15.2 billion representing a compound annual growth rate of approximately 57 per cent. over the period. In 2018, Metro Bank generated Underlying Profit before Tax of £50.0 million, representing year-on-year growth compared to 2017 of 140 per cent.

On 22 February 2019, Metro Bank announced that it had been awarded a £120 million C&I Fund grant. These funds will be used to help meet the needs of SMEs and inject further competition into the market. The additional funds will allow Metro Bank to enhance the UK SME banking experience. Alongside its existing store opening programme, Metro Bank will open 30 new stores in the North of England, including cities such as Manchester, Leeds, Sheffield, and Liverpool, the staffing of which will be partially funded by Metro Bank's grant from the C&I Fund. Metro Bank has committed to the C&I Fund to open these 30 stores by 2025, although it is targeting their opening by the end of 2023. These funds will also enable Metro Bank to introduce a range of digital capabilities to help SMEs. The Directors believe that this £120 million award, the largest sum awarded by the BCR in 2019, is a strong external validation of its customer-driven business model.

On 1 May 2019, Metro Bank published its first quarter results for the period to 31 March 2019. Further details of these results can be found below in paragraph 5 ("*Current Trading and Prospects*") below.

2. Background to and Reasons for the Placing and Use of Proceeds

Metro Bank's disruptive, customer-led model continues to attract new "FANS" and grow strongly as discussed immediately above. However, the macroeconomic backdrop in the UK has been particularly challenging over recent quarters and Metro Bank has not been immune to these pressures. Specifically, the macro challenges for the sector include:

- **The ongoing low interest rate environment.** The Directors believe that Bank of England rate rises have been delayed further into the future by ongoing political and macro uncertainty.
- **The competitive environment.** There is intense competition in mortgage pricing which has been exacerbated by the Bank of England's TFS and bank ring-fencing (thus driving trapped liquidity) which have driven further pressure on mortgage spreads.
- **Ongoing regulatory requirements.** Given the size of Metro Bank's balance sheet it is required to meet transitional Bank of England indicative MREL requirements. The external environment for raising such capital is more challenging which has the impact of driving up likely costs of such debt, potentially significantly.
- **The pace of regulatory change.** There are a number of ongoing regulatory projects that continue to consume significant capital and resources. These include Metro Bank's application of GDPR, PSDII, IFRS 9 and IFRS 16.

In addition to these macro headwinds, Metro Bank has also been impacted by certain company specific factors including:

- **RWA adjustment.** On 23 January 2019, Metro Bank announced that risk-weights assigned to certain exposures under the Credit Risk Standardised Approach were to be revised. This resulted in an increase in its RWAs of approximately £900 million and a reduction of its Tier 1 capital surplus by £95 million (based on a Tier 1 minimum regulatory capital requirement of 10.6 per cent. of RWAs). Approximately two-thirds of the RWA adjustment related to commercial loans secured on property as a secondary source of repayment and approximately one-third related to certain professional buy-to-let exposures. These adjustments were included in reported RWAs as at 31 December 2018, and they did not impact on credit decisions associated with, or on the quality of, Metro Bank's loan book, nor did they affect its leverage ratio. On 26 February 2019, Metro Bank received initial notification that the PRA and FCA intend to independently investigate the circumstances and events that led to this RWA adjustment, and these investigations remain ongoing.

  A number of actions have been taken as a result of the RWA adjustment, including:

  - The senior management team of Metro Bank undertook a review of the classification and risk-weighting of its commercial loan portfolio.
  - Following this review, the Board instructed a 'Big 4' accounting firm to support Metro Bank's programme of remediation, which is focused on its risk-related internal systems, processes, controls and governance. As part of that work, Metro Bank's commercial loan portfolio is being reviewed by its first, second and third lines of risk management defence (i.e., business areas, risk function and internal audit; see Part VII "*Risk Management – Enterprise Risk Management*"), based on a policy framework designed with external advisers. This remediation programme is expected to be completed in 2020.
  - Finally, Metro Bank is in the process of recruiting additional qualified personnel to implement the remediation plan described above, and it intends to engage another "Big 4" accounting firm to undertake an external assurance review of its RWA calculations on a yearly basis in the context of its Pillar 3 reporting, beginning with its full year 2019 results.
- **Timing of AIRB migration for residential mortgages.** Metro Bank continues to progress its AIRB application and is continuing to engage with the PRA on this iterative and detailed project. While Metro Bank previously anticipated the migration to occur in the second half of 2019 with respect to its residential mortgage portfolio (which would have allowed it to hold less capital against its lending than Metro Bank's current standardised approach allows), based on the use and experience requirements, Metro Bank believes it is unlikely to receive approval for the AIRB approach before 2021, at the earliest and there can be no assurance that Metro Bank's application will result in approval being granted. While AIRB approval is expected to positively affect Metro Bank's capital position, until the approval is

obtained Metro Bank will be required to find alternative sources of capital to support its controlled growth to offset the anticipated benefits of AIRB migration.

- **Operational transformation** required to improve scope for operational efficiency (e.g., cost-to-income ratio). The Directors recognise that the pace of improving operating efficiency has been too slow and requires greater focus on RoE and profitability, as well as investment to transform back-office functions to scale appropriately with the growth in the business and drive efficiencies.

As a result of the factors above, Metro Bank has been generating capital through retained earnings at a lower rate. In addition, the £95 million impact on its Tier 1 capital caused by the adjustment of its RWAs has reduced its capital surplus, and its projected future capital position has also been negatively impacted by the change in expectation of the timing of AIRB migration.

Metro Bank's capital position will, however, be strengthened by its receipt of the net proceeds of the Placing, which will allow it to further grow its loan balances and RWAs, while investing in the expansion of stores and new technologies. These initiatives will be used to counterbalance the adverse effects on its business discussed above and support an evolved growth strategy based on the following four key pillars:

- **Balance controlled growth, profitability and capital efficiency.** Given the prevailing market environment, Metro Bank will moderate deposit growth to approximately 20 per cent. per annum (which equates to deposit growth of approximately £4.0 million per store, per month, compared to previous targets of deposit growth of approximately £5.25 million per store, per month) by managing its LTD Ratio within an 85 per cent. to 90 per cent. range. Metro Bank is also targeting the opening of approximately eight stores per year until 2023 (down from a previous target of approximately 20 stores per year from 2020), as well as a further 30 stores (two of which are expected to be opened in 2019) in the North of England, the staffing of which will be funded in part by Metro Bank's C&I grant. Metro Bank has committed to the C&I Fund to open these 30 stores by 2025, although it is targeting their opening by the end of 2023. This store expansion will be complemented by enhanced digital origination and servicing, driving choice and cost efficiencies.
- **Rebalance its lending mix** to optimise capital allocation and returns centred around mortgages, SMEs and unsecured lending, whilst maintaining a low risk appetite. For example, Metro Bank will seek to increase the share of residential mortgages in its portfolio to approximately 70 per cent. to 75 per cent. by 2023, increasing its dependence on the UK residential mortgage market, while scaling back commercial real estate lending. Metro Bank will also develop its capabilities in higher-returning SME lending and move into unsecured consumer and business lending with new integrated platforms when market conditions offer an appropriate risk reward profile for shareholders.
- **Expand its range of services** to create new sources of income through the introduction of new services and maximising customer value, especially for SMEs. This will be supported by Metro Bank's own funds and its grant from the C&I Fund.
- **Deliver cost efficiency improvement.** Metro Bank anticipates delivering an underlying cost-to-income ratio of between 55 per cent. and 60 per cent. (compared to levels of approximately 85 per cent. to 92 per cent. in recent periods), with the majority of the improvements coming from a structured programme of initiatives, including by increasing the range of digital services offered, re-assessing the make-up of customer-facing teams, enhancing back-office processes (including IT investments) to create greater straight through processing and more efficient ways of working, continued review of core cost drivers (such as head office locations, supplier relationships and outsourced services) to ensure optimal efficiency, and by continuing to invest in core risk and regulatory capabilities to ensure a robust operating model to support further controlled growth.

The strategic update is reflected in Metro Bank's revised medium-term guidance as set out below:

- Deposit growth of approximately 20 per cent. per annum and approximately 2 per cent. share of the market by 2023
- Store growth of approximately eight new stores a year until 2023, as well as 30 additional stores by 2025 (two of which will be opened in 2019), the staffing of which will be funded in part by Metro Bank's grant from the C&I Fund
- Average deposit growth per store per month: >£4 million
- LTD Ratio: 85 per cent. to 90 per cent.

- Cost of risk: 15bps to 30bps through the cycle
- Cost: income ratio: 55 per cent. to 60 per cent. by 2023
- Capital: 12 per cent. minimum CRD IV Common Equity Tier 1 ratio ("**CET1 ratio**")
- Leverage ratio: >4 per cent.
- RoE: low double-digit RoE by 2023

3. Use of Proceeds

Metro Bank intends to raise gross proceeds of £375 million via the Placing, the net proceeds of which will be used to support its continued controlled growth in line with the strategy set out in paragraph 2 above and to counterbalance the adverse effects on Metro Bank's business of the factors discussed therein.

4. Strategy without the Capital Raise

If Metro Bank is unable to raise the gross proceeds referred to above because it fails to receive the requisite level of voting support in favour of the Placing from its shareholders, Metro Bank has prudently made plans to limit the growth of its loan book and strategic investments to ensure that its regulatory capital levels remain within its risk appetite, with a management target CET1 ratio of 12 per cent. or more. In order to maintain this operational steady state, which does not take into account proceeds of the Placing, Metro Bank would continue to:

- *Limit growth in the lending book.* Metro Bank would not increase the size of its lending book on a net basis, although it would continue to lend to replace declining loan balances. This would allow approximately £2,200 million of new gross lending over the next 12 months and Metro Bank's RWAs to remain broadly flat at approximately £10,000 million.
- *Optimise capital through lending mix.* Metro Bank would continue to reduce its participation in capital-intensive commercial lending until such time as more capital is available to support this business area.
- *Proactively reduce RWAs through disposals or securitisations.* Subject to market conditions, Metro Bank would seek to sell, or reduce risk through the synthetic securitisation of between £500 million and £1,000 million of non-core assets to allow it to continue to invest in its business and potentially support limited RWA growth.
- *Reduce strategic investment in stores.* Metro Bank would seek to limit store growth to seven further stores in 2019 and five in the first half of 2020 (including store openings the staffing of which will be funded in part by Metro Bank's C&I grant). In addition, Metro Bank would seek to limit the average size of these new stores to approximately 2,000 square feet (compared to the current average of approximately 5,000 square feet).
- *Reduce spend on new IT services.* Metro Bank would seek to reduce its own IT expenditure by approximately 25 per cent. compared to IT expenditure in the previous year.

5. Current Trading and Prospects

On 1 May 2019 Metro Bank announced its results for the first quarter to 31 March 2019. These demonstrated:

- Customer account growth of 97,000 (Q1 2018: 88,000) to 1.7 million, including year-on-year personal current account growth of 24 per cent., and business current account growth of 23 per cent.
- Year-on-year total deposit growth of £2.4 billion, up 19 per cent. to £15.1 billion. Deposit performance quarter on quarter was impacted by adverse sentiment following Metro Bank's January trading update, leading to a small number of commercial and partnership customers withdrawing deposits in January and February, resulting in a modest 4 per cent. reduction. Momentum in the core franchise continued and total deposits stabilised in March and returned to net growth in April. As may have been expected, Metro Bank experienced a short period of deposit net outflows following the intense press speculation between 10 and 13 May 2019. The position is stabilising.
- Year-on-year loan growth of £4.2 billion, up 38 per cent. to £15.2 billion. Loan growth in the quarter was up £0.9 billion. Loan to deposit ratio increased to 100 per cent. (Q4 2018: 91 per cent.) as a result of servicing the committed lending pipeline originated during Q4 2018.

- Underlying Profit before Tax at £6.9 million (Q1 2018: £10.0 million) and statutory profit before tax at £4.3 million (Q1 2018: £8.6 million). The year-on year reduction reflects a £2.0 million net effect of adopting IFRS 16 from 1 January 2019, and £3.5 million quarterly interest expense on the Tier 2 debt issued in June 2018. Underlying earnings per share were 5.1p (Q1 2018; 7.2p). Profitability benefited from fee and other income growth of 22 per cent. in the quarter to £22.4 million (Q4 2018: £18.3 million), up 58 per cent. year-on-year, driven by the development of new services and optimising fee structures.
- Strong asset quality with cost of risk at 6bps, a 3bps improvement from Q1 2018, reflecting Metro Bank's continued low-risk lending approach.

In order to meet transitional MREL requirements by 1 January 2020, Metro Bank plans to issue up to £500 million of MREL-eligible securities in 2019, as well as undertake further MREL issuances ahead of 1 January 2022.

6. The Placing

Metro Bank has raised gross proceeds of £375 million (approximately £362 million after deduction of estimated fees, costs and expenses of approximately £13 million) by way of a non-pre-emptive Placing of 75,000,000 New Shares to certain new and existing investors who have agreed to subscribe for New Shares pursuant to the Placing ("Placees") at an Issue Price of 500 pence per New Share subject, *inter alia*, to approval of the Transaction Resolutions by the Shareholders. The New Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Shares. The Placing is fully underwritten by the Joint Bookrunners on the terms and subject to the conditions of the Placing Agreement, details of which are set out in paragraph 15 of Part XI "*Additional Information*" of this document.

The Board has carefully considered and consulted with a number of the Company's leading Shareholders on the best way to structure the proposed equity capital raise. The decision to structure the equity capital raising by way of a non-pre-emptive Placing takes into account a number of factors, including the net proceeds to be raised. The Board has sought to balance the potential for dilution to non-participating Shareholders with the benefits to Shareholders as a whole of promoting deal certainty and the familiarity of the Placing structure to the Company's Shareholder base. Although the Placing will be undertaken on a non-pre-emptive basis, the Company intends to respect the principles of pre-emption as far as practicable by extending the offer to a significant majority of Shareholders and, as far as practicable, allocating to existing Shareholders at least up to what would be their pre-emptive entitlement.

The Board is seeking the approval of Shareholders to undertake the Placing by way of the Transaction Resolutions proposed at the General Meeting to be held at 3.00 p.m. on 3 June 2019. The General Meeting and the Transaction Resolutions are separate from the AGM to be held at 1.30 p.m. on 21 May 2019 and the resolutions proposed to the AGM. If the approval of Shareholders to the Transaction Resolutions at the General Meeting is not obtained, the Placing will not proceed. No fees, costs or expenses of the Placing will be directly charged to Shareholders or Placees.

6.1 ***Price***

The Placing will be made at a price of 500 pence per New Share (the "**Issue Price"**). The Issue Price represents a 5.2 per cent. discount to the average closing price of 527.4 pence per Existing Share for the five days ended the Reference Date and a 6.8 per cent. discount to the Closing Price of 536.5 pence per Existing Share on the Reference Date. The Issue Price (and the discount) has been set by the Board following their assessment of the prevailing market conditions and demand for the New Shares. The Board believes that the Issue Price (including the discount) is appropriate in the circumstances.

6.2 ***Underwriting***

Pursuant to the Placing Agreement, further details of which are set out in paragraph 15 of Part XI "*Additional Information*" of this document, the Joint Bookrunners have severally agreed to use reasonable endeavours to procure subscribers for the New Shares at the Issue Price. If the Joint Bookrunners are unable to procure subscribers for all of the New Shares (including in the event that a prospective Placee fails to take up any or all of the New Shares which have been allocated to it or which it has agreed to take up at the Issue Price), then each of the Joint Bookrunners has agreed, on the terms and subject to the conditions set out in the Placing Agreement, severally (and not jointly or jointly and severally) to subscribe for such New Shares at the Issue Price in its agreed proportion.

6.3 ***Dilution***

The economic and voting interests of Shareholders who do not participate in the Placing will be diluted by 43.5 per cent. as a result of the Placing.

6.4 ***Conditionality***

The Placing is, *inter alia*, conditional upon:

(i) the Transaction Resolutions having been passed by Shareholders at the General Meeting convened for the purposes of seeking approval to undertake the Placing;

(ii) the Placing Agreement having become unconditional in all respects, save for the condition relating to Admission, and not having been terminated in accordance with its terms before Admission occurs; and

(iii) Admission having become effective by not later than 8.00 a.m. on 5 June 2019 (or such later time and/or date as the Joint Bookrunners and Metro Bank may agree, not being later than 12 June 2019).

If any of the conditions are not satisfied or, if applicable, waived, then the Placing will not take place. The General Meeting and the Transaction Resolutions are separate from the AGM to be held at 1.30 p.m. on 21 May 2019 and the resolutions proposed at the AGM.

7. Metro Bank employee share plans

The options and awards granted under the Metro Bank employee share plans may be adjusted in such a way as the Remuneration Committee considers appropriate to compensate option and award holders for any effect the Placing will have on those options and awards (as permitted by the rules of the relevant Metro Bank employee share plans). Participants in the Metro Bank employee share plans will be contacted separately with further information on how their options and awards may be affected by the Placing.

8. Working Capital

In the opinion of the Company, taking into account the net proceeds receivable by the Company from the Placing, the working capital available to the Group is sufficient for the Group's present requirements, that is for the next 12 months following the date of this document.

9. Risk Factors

This Prospectus contains a detailed discussion of risks associated with an investment in Metro Bank and the Placing. You should consider fully and carefully these risk factors, as set out in the section headed "*Risk Factors*" on pages 18 to 38 of this document.

10. Further Information

Your attention is also drawn to the further information set out in Part I "*Terms and Conditions of the Placing*". This letter is not, and does not purport to be, a summary of this document and therefore should not be regarded as a substitute for reading this Prospectus. You should read the whole of this document, the documents incorporated herein by reference and not rely solely on the information set out in this section "*Letter from the Chairman of Metro Bank PLC*" of this Prospectus.

The results of the votes cast at the General Meeting will be announced as soon as possible once known through a Regulatory Information Service. It is expected that this will be on 3 June 2019.

11. Overseas Jurisdictions

The attention of persons who have registered addresses outside the UK, or who are citizens of or resident or located in countries other than the UK, is drawn to the information in paragraph 4 of Part I "*Terms and Conditions of the Placing*" of this Prospectus.

12. Taxation

Information about certain taxation in the UK and the United States in relation to the Placing is set out in Part X "*Taxation*" of this Prospectus. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than those noted above, you should consult your own independent tax adviser without delay.

13. Action to be taken in respect of the General Meeting

This document includes a Notice convening a General Meeting to be held at 3.00 p.m. on 3 June 2019 at One Southampton Row, London WC1B 5HA. The purpose of the General Meeting is to consider and, if thought fit, to pass the Transaction Resolutions which seek approval to undertake the Placing. The General Meeting and the Transaction Resolutions are separate from the AGM to be held at 1.30 p.m. on 21 May 2019 and the resolutions proposed to the AGM.

In summary, the Transaction Resolutions (which comprise two ordinary resolutions and a special resolution) seek the approval of Shareholders:

(i) to the terms (including as to the discount) of the Placing as set out in this document, and to direct the Board to exercise all powers to cause Metro Bank to implement the Placing;

(ii) to grant the Board authority to allot the New Shares for cash for the purposes of the Placing pursuant to section 551 of the Companies Act; and

(iii) to grant the Board authority to allot the New Shares to be issued under the authority to allot requested under the resolution described in paragraph (ii) above as if the pre-emption rights in section 561 of the Companies Act did not apply and, therefore, allow the Board to implement the Placing on a non-pre-emptive basis without first offering the New Shares to existing Shareholders.

Please note that this is not the full text of the Transaction Resolutions and you should read this section in conjunction with the Notice of General Meeting set out at the end of this document.

You will find enclosed with this document a Form of Proxy for use in connection with the General Meeting. It is important to us that Shareholders have the opportunity to vote, even if they are unable to come to the General Meeting. If you are unable to come to the General Meeting, you can use the enclosed Form of Proxy to nominate someone else to come to the meeting and vote for you.

To appoint a proxy, you must return the Form of Proxy. You are requested to complete and sign the Form of Proxy whether or not you are acquiring shares in the Placing or propose to attend the General Meeting in person in accordance with the instructions printed on it and return it as soon as possible, but in any event so as to be received by no later than 3.00 p.m. on 30 May 2019 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting), to Equiniti Limited, Aspect House Spencer Road, Lancing, West Sussex BN99 6DA.

If you hold your Shares that do not carry any present or future preferential right to dividends or to the payer's assets on its winding up ("**Ordinary Shares**") in uncertificated form that is, through CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the CREST Manual so that it is received by the Registrar (under CREST participant ID RA19), in each case by no later than 3.00 p.m. on 30 May 2019 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

The Form of Proxy may also be submitted online through the website of the Registrar at www.sharevote.co.uk by following the instructions provided.

Unless the Form of Proxy (or the electronic appointment of a proxy) or CREST Proxy Instruction is received by the relevant date and time specified above, it will be invalid.

The completion and posting of the Form of Proxy (or the electronic appointment of a proxy) or completing and transmitting a CREST Proxy Instruction will not preclude you from attending and voting in person at the General Meeting if you wish to do so.

14. Director's participation

Vernon W. Hill, II, the Chairman, Craig Donaldson, the Chief Executive Officer, David Arden, the Chief Financial Officer and Company Secretary, and Non-Executive Directors, Alastair (Ben) Gunn, Eugene Lockhart, Paul Thandi, Stuart Bernau and Sir Michael Snyder, who hold in aggregate 5,469,693 Shares, representing approximately 5.61 per cent. of the Company's existing issued ordinary share capital as at 16 May 2019 (being the last practicable date prior to the publication of this document), have each, respectively, subscribed for 1,000,000, 70,000, 15,000, 20,000, 10,000, 30,000, 1,000 and 20,000 New Shares in the Placing. The participation in the Placing by the Chairman, together with his subscription for Shares in the placing carried out by the Company in July 2018, constitutes a smaller related party transaction for the purposes of Listing Rule 11.1.10R. The aggregate value of the consideration for the Chairman's participation in the Placing together with his participation in the placing carried out by the Company in July 2018 is £9,999,987. The Company has obtained written confirmation from RBC, as sponsor, that the terms of the Chairman's participation in the Placing are fair and reasonable as far as the Shareholders are concerned.

15. Recommendation

The Board considers the Placing to be in the best interests of the Shareholders taken as a whole. Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Transaction Resolutions, as the Directors intend to do in respect of their own beneficial holdings, which amount in aggregate to 5,469,693 Shares and represent approximately 5.61 per cent. of the Company's issued ordinary share capital as at 16 May 2019 (being the last practicable date prior to publication of this document).

Yours faithfully

Vernon W. Hill, II
Chairman
Metro Bank PLC

IMPORTANT INFORMATION

Presentation of Financial Information

The historical financial information in this Prospectus has been prepared in accordance with the requirements of the Prospectus Directive Regulation, the UK Listing Rules and IFRS issued by the International Accounting Standards Board and as adopted for use in the EU. The basis of preparation is further explained in Part V "*Historical Financial Information*" of this document. The historical financial information presented in this Prospectus consists of audited consolidated financial information of the Group for the years ended and as at 31 December 2016, 2017 and 2018 and the unaudited interim consolidated financial information of the Group for the three months ended and as at 31 March 2019 (which includes a comparative set of financial information of the Group for the three months ended and as at 31 March 2018).

Non-IFRS financial measures

Metro Bank presents certain key performance measures that are not defined under IFRS but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. These measures include Common Equity Tier 1 ratio, debt-to-value ratio ("**DTV Ratio**"), LTD Ratio, NIM, return-on-equity ("**RoE**"), total capital ratio (as defined herein) and underlying profit before tax ("**Underlying Profit before Tax**"), each as defined below.

- Common Equity Tier 1 ratio is defined as share capital, share premium, retained earnings and other reserves less specified regulatory adjustments as a percentage of year-end RWAs.
- DTV Ratio is defined as the ratio of the gross outstanding amount of a loan to the indexed value of its collateral.
- LTD Ratio is defined as the ratio of loans and advances to customers divided by customer deposits.
- NIM is calculated as net interest income as a percentage of monthly average interest-earning assets.
- RoE is defined as profit attributable to ordinary shareholders divided by monthly average shareholder's equity as a percentage.
- Total capital ratio is defined as the total of Tier 1 and Tier 2 capital as a percentage of year-end RWAs.
- Underlying Profit before Tax is defined as profit before tax excluding (i) fees associated with listing, (ii) impairment of property, plant and equipment and intangible assets and (iii) costs relating to the RBS alternative remedies package in connection with Metro Bank's C&I grant (which are accounted for within operating expenses in Metro Bank's IFRS financial statements). Underlying Profit before Tax excludes these items because Metro Bank believe they distort year-on-year comparisons and that their exclusion provides a better and more relevant understanding of the underlying trends in its business.

The table below sets forth a reconciliation of Underlying Profit before Tax to Metro Bank's profit before tax as set out in its IFRS financial statements for 2018.

	Year ended 31 December 2018 (£ million)
Profit before tax	40.6
Add back:	
Listing share awards	0.8
Costs relating to RBS alternative remedies package	3.8
Impairment of property, plant and equipment and intangible assets	4.8
Underlying Profit before Tax	50.0

Some of the non-IFRS measures noted above are defined by, and calculated in compliance with, applicable banking regulation, which often provides Metro Bank with certain discretion in making its calculations.

Because of the discretion that Metro Bank and other banks have in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. These measures should not be used as a substitute for evaluating the performance of Metro Bank based on the Historical Financial Information.

Non-financial information operating data

The non-financial operating data included in this Prospectus has been extracted without material adjustment from the management records of Metro Bank and is unaudited.

Market and Industry Information

Market data and certain industry forecasts used in this document has been sourced from third parties. The Company confirms that all third party information contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third party information has been used in this Prospectus, the source of such information has been identified.

Cautionary Note Regarding Forward Looking Statements

This document and the information incorporated by reference into this document include statements that are, or may be deemed to be, "forward looking statements". These forward looking statements can be identified by the use of forward looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and the information incorporated by reference into this document and include statements regarding the intentions, beliefs or current expectations of the Directors, the Company or the Group concerning, amongst other things, the operating results, financial condition, prospects, growth, strategies and dividend policy of Metro Bank and the sectors and markets in which it operates.

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Directors' or the Company's ability to control or predict. Forward looking statements are not guarantees of future performance. Metro Bank's actual operating results, financial condition, dividend policy and the development of the sectors and markets in which it operates may differ materially from the impression created by the forward looking statements contained in this document and/or the information incorporated by reference into this document. In addition, even if the operating results, financial condition and dividend policy of the Company, and the development of the sectors and markets in which it operates, are consistent with the forward looking statements contained in this document and/or the information incorporated by reference into this document, those results or developments may not be indicative of results or the development of such sectors and markets in subsequent periods. Important factors that could cause these differences include, but are not limited to, general political, economic and business conditions, sector and market trends, changes in government, changes in law or regulation, stakeholder perception of the Company and/or the sectors or markets in which it operates and those risks described in the section of this document headed "*Risk Factors*".

You are advised to read this document and the information incorporated by reference into this document in their entirety, and, in particular, the section of this document headed "*Risk Factors*", for a further discussion of the factors that could affect the Company's future performance and the sectors and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward looking statements in this document and/or the information incorporated by reference into this document may not occur.

Other than in accordance with their legal or regulatory obligations (including under the Listing Rules, the Disclosure Guidance and Transparency Rules, the Prospectus Rules and MAR), neither the Company nor the Joint Bookrunners undertake any obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise.

The statements above relating to forward-looking statements should not be construed as a qualification on the Company's working capital statement in paragraph 8 of the section headed "*Letter from the Chairman of Metro Bank PLC*" of this document.

Currencies

In this document and the information incorporated by reference into this document, references to "**£**", "**sterling**" or "**pounds sterling**" are to the lawful currency of the United Kingdom.

Rounding

Percentages and certain amounts in this Prospectus, including financial, statistical and operational information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

Definitions

Certain terms used in this Prospectus, including all capitalised terms and certain technical and other terms, are defined and explained in Part XIII "*Definitions*".

Available Information

If, at any time, the Company is neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3 2(b) thereunder, the Company will furnish, upon request, to any holder or beneficial holder of the New Shares, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. In such cases, the Company will also furnish to each such owner all notices of general Shareholders' meetings and other reports and communications that the Company generally makes available to Shareholders.

Enforcement of Civil Liabilities

The ability of persons who have registered addresses outside the UK, or who are citizens of or resident or located in countries other than the UK ("**Overseas Persons**") to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England and Wales. The rights of holders of Shares are governed by English law and by the Articles of Association. These rights differ from the rights of shareholders in typical U.S. corporations and some other non UK corporations.

An Overseas Person may not be able to enforce a judgment against some or all of the Directors and executive officers. The majority of the Directors and executive officers are residents of the United Kingdom. Consequently, it may not be possible for an Overseas Person to effect service of process upon the Directors and executive officers within the Overseas Person's country of residence or to enforce against the Directors and executive officers' judgments of courts of the Overseas Person's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Person will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the United Kingdom against the Directors or executive officers who are residents of the United Kingdom or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on the foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

PLACING STATISTICS

Number of Shares in issue on 16 May 2019[(1)]	97,420,458
Number of New Shares to be issued by the Company pursuant to the Placing	75,000,000
Enlarged Share Capital immediately following completion of the Placing[(2)]	172,420,458
New Shares as a percentage of Enlarged Share Capital immediately following completion of the Placing[(2)]	43.50 per cent.
Issue Price	500 pence per New Share
Discount of the Issue Price to the average closing price of 527.4 pence per Existing Share for the five days ended the Reference Date	5.2 per cent.
Discount of the Issue Price to the Closing Price of 536.5 pence per Existing Share on the Reference Date	6.8 per cent.
Estimated fees, costs and expenses in connection with the Placing	£13 million
Estimated net proceeds of the Placing receivable by the Company	£362 million

Notes:

(1) Being the latest practicable date prior to the date of this document.

(2) Assuming no options under the Company's Share Schemes are exercised between the date of this document and Admission becoming effective.

EXPECTED TIMETABLE FOR THE PLACING[1][2]

Publication of this document, the Notice of General Meeting and the Form of Proxy	17 May 2019
Posting of this document and Forms of Proxy	17 May 2019
Announcement of the results of the Placing	17 May 2019
Annual General Meeting of the Company	1.30 p.m. on 21 May 2019
Latest time and date for receipt of Forms of Proxy	3.00 p.m. on 30 May 2019
General Meeting to approve the Placing	**3.00 p.m. on 3 June 2019**
Announcement of the results of the General Meeting	3 June 2019
Admission and dealings in New Shares to commence on the London Stock Exchange	**8.00 a.m. on 5 June 2019**
New Shares credited to CREST stock accounts (uncertificated holders only)	as soon as practicable after 8.00 a.m. on 5 June 2019
Despatch of definitive share certificates for the New Shares in certificated form (where applicable)	by no later than 17 June 2019

Notes:

(1) The times and dates set out in the timetable above and referred to throughout this document may be adjusted by the Company by announcement through a Regulatory Information Service, in which event details of the new dates will also be notified to the Financial Conduct Authority, the London Stock Exchange and, where appropriate, Shareholders.

(2) References to times in this document are to London time, unless otherwise stated.

DIRECTORS AND ADVISERS

Board of Directors

A list of the Directors is set forth in the table below.

Name	*Position*
Vernon W. Hill, II	Chairman
Alastair (Ben) Gunn	Deputy Chairman
Sir Michael Snyder	Senior Independent Director
Craig Donaldson	Chief Executive Officer
David Arden	Chief Financial Officer and Company Secretary
Catherine Brown	Independent Non-Executive Director
Eugene Lockhart	Non-Executive Director
Anna (Monique) Melis	Independent Non-Executive Director
Paul Thandi	Independent Non-Executive Director
Roger Farah	Independent Non-Executive Director
Stuart Bernau	Non-Executive Director

Each of the Director's business address is One Southampton Row, London WC1B 5HA, and each of the Director's business telephone number is 020 3402 8900 or, when dialling from outside the United Kingdom, +44 20 3402 8900.

Vernon W. Hill, II – Chairman

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 stores. 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.

Alastair (Ben) Gunn – Deputy Chairman

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.

Sir Michael Snyder – Senior Independent Director

Michael was Senior Partner of Kingston Smith between 1979 and 2016 and is now a consultant to the firm. He has advised the 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.

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 The City UK as Chairman of the Audit and Risk Committee.

David Arden – Chief Financial Officer and Company Secretary

David was previously CFO at Sainsbury's Bank and interim MD of Argos Financial Services, following the successful acquisition of Home Retail Group by J Sainsbury plc in September 2016. David joined Sainsbury's Bank from Shop Direct Financial Services, where he was CFO. In his 28-year career, he has held a number of senior positions including MD of RBS/NatWest credit cards and Finance and Risk Director for Tesco Bank.

Catherine Brown– Non-Executive Director

Catherine holds various non-executive roles including: Non-Executive Board Member at the Cabinet Office, Non-Executive Director of FNZ (UK) Limited, and Chairman and Non-Executive Director of Additive Flow Limited and The Plastic Economy Limited. She is a Trustee of Cancer Research UK, one of the UK's largest charities. Catherine has extensive experience in strategy and organisational transformation in financial services and a wide range of experience in leadership and operations. Her previous appointments include: Group Strategy Director at Lloyds Banking Group, Executive Director of Human Resources at the Bank of England and Chief Operating Officer at Apax Partners.

Eugene Lockhart – Non-Executive Director

Eugene Lockhart is Chairman and Managing Partner at MissionOG, a growth equity investment firm with significant operational and investment experience across the financial services and payments industries. Previously, he was a Special Adviser at General Atlantic and a Venture Partner at Oak Investment Partners. Prior to that, he was President of the Global Retail Bank at Bank of America, President & CEO at Mastercard International, and CEO at Midland Bank plc. He has been on the boards of many banking institutions including Midland Group Holdings, First Republic Bank, Bank America Corp., Mastercard Int'l, and A.P.A.C.S amongst others. Gene has also been the Chairman of the Board of CHAPS and Director of SWIFT.

Anna (Monique) Melis – Non-Executive Director

Monique is a Managing Director and Global Service line leader of Compliance and Regulatory Consulting at Duff & Phelps and is a Non-Executive Director of Duff & Phelps (Luxembourg) Management Company S.a.r.l. 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 (CIMA) and Stock Exchange (CSX), the Financial Services Authority (FSA), and the Securities and Futures Authority (SFA) in the UK.

Paul Thandi – Non-Executive Director

Paul is CEO of the NEC group in Birmingham where he has overseen the growth of one of the world's top venue management companies. He is an experienced CEO, Chair and Non-Executive Director with diverse international media and service-led experience with an emphasis on people, innovation, data and culture. Paul has over 20 years' experience in the media industry, including as executive director at CMP Information (CMPi). He is also Deputy Lieutenant of West Midlands Lieutenancy, representing the Queen in the region.

Roger Farah – Non-Executive Director

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 CVS Health and The Progressive Corporation.

Stuart Bernau – Non-Executive Director

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.

Registered Office	One Southampton Row London WC1B 5HA
Company Secretary	David Arden
Sponsor, Joint Global Coordinator and Joint Bookrunner	RBC Europe Limited Riverbank House 2 Swan Lane London EC4R 3BF
Joint Global Coordinator and Joint Bookrunner	Jefferies International Limited Vintners Place 68 Upper Thames Street London EC4V 3BJ
Joint Bookrunner	Keefe, Bruyette & Woods (acting through Stifel Nicolaus Europe Limited) 150 Cheapside, 4th Floor London EC2V 6ET
Auditors and Reporting Accountants to the Company	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Legal advisers to the Company as to English and United States law	Linklaters LLP One Silk Street London EC2Y 8HQ
Legal advisers to the Joint Bookrunners as to English and United States law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ
Registrar	Equiniti Limited Aspect House Spencer Road, Lancing West Sussex BN99 6DA

PART I

TERMS AND CONDITIONS OF THE PLACING

1. Introduction

Metro Bank has raised gross proceeds of £375 million (approximately £362 million after deduction of the total estimated fees, costs and expenses of approximately £13 million) by way of a non-pre-emptive Placing of 75,000,000 New Shares to Placees at an Issue Price of 500 pence per New Share subject, *inter alia*, to the approval of the Transaction Resolutions by the Shareholders. The New Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the Existing Shares. The Placing is fully underwritten by the Joint Bookrunners on the terms and subject to the conditions of the Placing Agreement, details of which are set out in paragraph 15 of Part XI "*Additional Information*" of this document.

Times and dates referred to in this Part I have been included on the basis of the expected timetable for the Placing set out on page 51 of this document.

The Issue Price of 500 pence per New Share represents a 5.2 per cent. discount to the average closing price of 527.4 pence per Existing Share for the five days ended the Reference Date and a 6.8 per cent. discount to the Closing Price of 536.5 pence per Existing Share on the Reference Date.

Any persons (including, without limitation, custodians, nominees and trustees) who have a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom should consider paragraph 4 below.

Application will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. It is expected that Admission will become effective on 5 June 2019 and that dealings on the London Stock Exchange in the New Shares (fully paid) will commence at 8.00 a.m. on that date. The New Shares are in registered form and can be held in certificated form or uncertificated form via CREST.

The Shares are already admitted to CREST. No further application for admission to CREST is required for the New Shares and all of the New Shares when issued and fully paid may be held and transferred by means of CREST.

2. Conditionality

The Placing is conditional, *inter alia*, upon:

(i) the Transaction Resolutions having been passed by Shareholders at the General Meeting convened for the purposes of seeking approval to undertake the Placing;

(ii) the Placing Agreement having become unconditional in all respects, save for the condition relating to Admission, and not having been terminated in accordance with its terms before Admission occurs; and

(iii) Admission having become effective by not later than 8.00 a.m. on 5 June 2019 (or such later time and/or date as the Joint Bookrunners and Metro Bank may agree, not being later than 12 June 2019).

If any of the conditions are not satisfied or, if applicable, waived, then the Placing will not take place. In such circumstances, application monies will be returned without payment of interest, as soon as practicable thereafter.

Following Admission, the Placing Agreement will not be subject to any condition or right of termination (including in respect of statutory withdrawal rights). For further details of the Placing Agreement, please see paragraph 15 of Part XI "*Additional Information*" of this document.

3. Terms of Participation

Persons who have been invited to and who have chosen to participate in the Placing, including any individuals, funds or others on whose behalf a commitment to acquire New Shares in the Placing has been given, have been deemed: (i) to have read and understood the Placing Announcement (including the appendix thereto), a placing proof of this Prospectus (the "**Placing Proof**") and the announcement of the results of the Placing (expected to be published on or around the date of this Prospectus) (the "**Results Announcement**") in their entirety; and (ii) to have made such offer to participate on the terms and conditions of the Placing contained in the Placing Announcement (including the appendix thereto), the Placing Proof and the Results Announcement, including (and such persons are only being permitted to participate in the Placing on the basis that they have provided) the representations, warranties, acknowledgements, agreements and undertakings, set out in the Placing Announcement.

4. Overseas Jurisdictions

4.1 ***General***

This document has been approved by the FCA, being the competent authority in the United Kingdom. The making or acceptance of the proposed offer of New Shares to persons who have registered addresses outside the United Kingdom, or who are resident in, or citizens of, countries other than the United Kingdom may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to the legal, regulatory, tax, business, financial and related aspects of an acquisition of New Shares.

Subject to paragraph 4.2, 4.3 and 4.4 below, it is also the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside the United Kingdom acquiring New Shares to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 4 are intended as a general guide only and any person who is in doubt as to his position should consult his professional adviser without delay.

Receipt of this document and/or any other document issued by Metro Bank in connection with the Placing and/or Admission will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or any other documents issued by Metro Bank in connection with the Placing and/or Admission must be treated as sent for information only and should not be copied or redistributed.

No offer is being made to Shareholders: (i) with a registered address in the Excluded Territories; or (ii) in any jurisdiction in which it is unlawful to make or accept an offer to acquire the Shares.

No person receiving a copy of this document and/or any other document issued by Metro Bank in connection with the Placing and/or Admission may treat the same as constituting an invitation or offer to such person, nor should such person in any event use any such documents issued by Metro Bank in connection with the Placing and/or Admission unless, in the relevant territory, such an invitation or offer could lawfully be made to such person and any transaction resulting from such use or dealing could be effected without contravention of any registration or other legal or regulatory requirements. In such circumstances, where an invitation or offer would contravene any registration or other legal or regulatory requirements, this document and/or any other documents issued by Metro Bank in connection with the Placing and/or Admission are to be treated as sent for information only and should not be copied or redistributed.

Persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document should not, in connection with the Placing, distribute or send the same in or into any jurisdiction where to do so would or might contravene local security laws or regulations. Any person (including, without limitation, custodians, nominees and trustees) who does forward this document into any such territories (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 4.

The attention of persons with registered addresses in the United States or any Excluded Territory is drawn to paragraphs 4.2 to 4.4 below.

4.2 ***United States of America***

The New Shares may be offered to persons in the United States, provided such persons are QIBs, in each case in transactions exempt from, or not subject to, the registration requirements of the Securities

Act. Separately, the Company is privately placing certain New Shares to AIs, provided such persons satisfy the Company that they are eligible to participate in the Placing on such basis. To establish eligibility, the Company may require the AI to deliver a signed investor letter (in the form provided by the Company) to the Company and the Registrar.

Each purchaser of the New Shares, by accepting delivery of the Prospectus and the New Shares, will be deemed to have acknowledged, represented, warranted and agreed (or, in the case of AIs, their signed investor letter will include the following representations, warranties, and agreements):

- that the investor is a "qualified institutional buyer", as such term is defined in Rule 144A (or, in the case of AIs, an "accredited investor" as such term is defined in Rule 501(a) of Regulation D under the Securities Act), and that it is acquiring the New Shares for its own account or for the account of an accredited investor as to which it exercises sole investment discretion and not with a view to any resale, distribution or other disposition of the New Shares in violation of United States federal or state securities laws;
- that the investor is aware that the New Shares have not been registered under the Securities Act or any state securities laws and that the offer and sale of the New Shares to it is being made in reliance on an exemption from the registration requirements under the Securities Act;
- that the investor understands that if it decides to offer, sell, pledge or otherwise transfer any of the New Shares, such New Shares may be offered, sold, pledged or otherwise transferred and if prior to the date that is one year after the later of the date of original issue and the last date on which the Company or any affiliate of the Company (or any predecessor thereto) was the owner of such New Shares, only outside the United States in accordance with Regulation S, and in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction; that the New Shares will be "restricted securities" within the meaning of Rule 144 under the Securities Act; that the Company reserves the right prior to any registration of transfer or resale or other disposition of New Shares to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company; and that the Registrar will not be required to accept for registration of transfer any New Shares, except upon presentation of evidence satisfactory to the Company and the Registrar that the foregoing restrictions on transfer have been complied with;
- that the investor understands that upon the original issuance thereof, and until such time as the same is no longer required under applicable requirements of the Securities Act or applicable state securities laws or as otherwise determined by the Company and/or the Registrar, definitive certificates representing the New Shares, and all definitive certificates issued in exchange therefor or in substitution thereof, shall bear a legend to the effect set forth in the immediately preceding paragraph; and
- that the investor acknowledges that it has not purchased the New Shares as a result of any "general solicitation or general advertising" (within the meaning of Regulation D under the Securities Act).
- No representation has been, or will be, made by the Company as to the availability of Rule 144 or any other exemption under the Securities Act or any state securities laws for the re-offer, sale, pledge or transfer of the New Shares by any investor.
- In addition, until 40 days after the commencement of the Placing, an offer, sale or transfer of the New Shares within the United States by a dealer (whether or not participating in the Placing) may violate the registration requirements of the Securities Act.
- The New Shares have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Accordingly, the Company is not extending the Placing into the United States unless an exemption from the registration requirements of the Securities Act is available and, subject to certain exceptions as noted above, none of this document or any other document issued by the Company in connection with the Placing and/or Admission constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any New Shares in the United States. Subject to certain exceptions, this document is not being sent to any Shareholder with a registered address in the United States. Subject to certain exceptions, all persons acquiring New Shares and wishing to hold such Shares in registered form must provide an address for registration of the New Shares issued upon exercise thereof outside the United States.

Subject to certain exceptions, any person who acquires New Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this document or accepting delivery of the New Shares that they are not, and that, at the time of acquiring the New Shares they will not be, in the United States or acting on behalf of, or for the account or benefit of a person on a non discretionary basis in the United States or any state of the United States.

4.3 ***Canada***

The New Shares may be sold only to purchasers in the Provinces of Alberta, British Columbia, Ontario and Québec purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the New Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the Joint Bookrunners are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

4.4 ***Australia, Japan and South Africa***

Due to restrictions under the securities laws of Australia, Japan and South Africa, this document in relation to the New Shares will not be sent to Shareholders in such jurisdictions and persons with registered addresses in the Excluded Territories will not be entitled to participate in the Placing unless such action would not result in the contravention of any registration or other legal requirement in any jurisdiction. Subject to certain exceptions, the New Shares may not be transferred or sold to, or renounced or delivered in, the Excluded Territories. No offer of New Shares is being made by virtue of this document into the Excluded Territories.

4.5 ***Overseas territories other than the Excluded Territories***

(i) *Member States of the EEA (other than the United Kingdom)*

In relation to each member state of the EEA which has implemented the Prospectus Directive (as defined below) (except the United Kingdom) (each a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, none of the New Shares may be offered or sold to the public in that Relevant Member State prior to the publication of this document in relation to the New Shares, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, other than the offers contemplated in this document in a Relevant Member State after the date of such publication or notification, and except that an offer of such New Shares may be made to the public in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Shares shall require the Company to publish a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any New Shares or to whom any offer is made under the Placing will be deemed to have represented, acknowledged and agreed that it is a "**qualified investo**r" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this selling restriction, the expression an "**offer of New Shares to the public**" in relation to any New Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Placing and the New Shares to be offered so as to enable an investor to decide to acquire the New Shares, as the same may be varied in that Relevant Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

In the case of the New Shares being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the New Shares acquired by it have not been acquired on a non discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any New Shares to the public other than their offer or resale in a Relevant Member State to "**qualified investors**" within the meaning of Article 2(1)(e) of the Prospectus Directive. The Company, the Joint Bookrunners and their respective affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

(ii) *Other overseas countries*

Persons who have registered addresses in or who are resident in, or who are citizens of, all countries other than the United Kingdom should consult their professional advisers as to the legal, regulatory, tax, business, financial and related aspects of an acquisition of New Shares.

5. Withdrawal rights

Placees have been deemed to acknowledge that their respective agreements to subscribe for a number of New Shares is not by way of acceptance of a public offer made or to be made in the Prospectus but is by way of a collateral contract and, accordingly, section 87Q of FSMA does not entitle Placees to withdraw their acceptance in the event that the Company publishes a supplementary prospectus in connection with the Placing and/or Admission.

6. Taxation

Information on taxation in the United Kingdom with regard to the Placing is set out in Part X "*Taxation*" of this document. The information contained in Part X "*Taxation*" of this document is intended only as a general guide to the current tax position in the United Kingdom, and Placees should consult their own tax advisers regarding the tax treatment of the Placing in light of their own circumstances. Placees who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.

7. Governing Law

The terms and conditions of the Placing as set out in this document and the Placing Announcement shall be governed by, and construed in accordance with, English law.

8. Jurisdiction

The courts of England and Wales are to have exclusive jurisdiction as regards any claim, dispute or matter arising out of the Placing, except that enforcement proceedings in respect of the obligation to make payment for the New Shares (together with any interest chargeable thereon) may be taken by either the Company or any Joint Bookrunner in any jurisdiction in which the relevant Placee is incorporated or in which any of its securities have a quotation on a recognised stock exchange.

PART II

INFORMATION ABOUT METRO BANK

Investors should read this Part II: "Information about Metro Bank" in conjunction with the more detailed information contained in this Prospectus, including the financial and other information in Part V: "Historical Financial Information" and Part IV: "Operating and Financial Review". Where stated, financial information in this Part II has been extracted or derived from Part V: "Historical Financial Information".

The following discussion of Metro Bank's business contains forward-looking statements that reflect the current view of the Directors and involve risks and uncertainties. See "Risk Factors" and "Important Information – Cautionary note regarding forward-looking statements" for a discussion of important factors that could cause Metro Bank's actual results to differ materially from the forward-looking statements contained herein.

Overview

Metro Bank was founded by Vernon W. Hill, II in 2010 as the first full-service, independent, new High Street bank to open in the UK in more than 100 years. Metro Bank uses a disruptive, deposit-driven funding model and a superior retail and business-focused customer service experience that emphasises simple banking to turn its customers into "**FANS**" (customers who recommend someone to bank with Metro Bank).

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 66 stores (not "branches") in the key conurbations across the South of England and into the Midlands, with 1.7 million customer accounts, £15,095 million in deposits from customers and £15,201 million of gross loans and advances to customers as of 31 March 2019. Driven by and reflective of its customer service-led model and culture, Metro Bank's "stores" are open seven days a week, early until late with 24/7 telephony, award-winning digital and mobile banking, all integrated to provide an outstanding customer experience.

Metro Bank's success in delivering an outstanding customer experience is best evidenced by the results of the Competition and Markets Authority ("**CMA**") Service Quality surveys published in February 2019. As set forth in the charts below, Metro Bank's customers rated it number one out of 16 banks and building societies for quality of service for personal current accounts and number two for business current accounts, with 83 per cent. and 71 per cent. of customers "extremely likely" or "very likely" to recommend Metro Bank's personal and business services, respectively.

Personal Current Accounts: Overall Quality of Service(1)

Business Current Accounts: Overall Quality of Service(1)

(1) Source: CMA Service Quality Surveys published February 2019

Metro Bank's integrated customer experience model is underpinned by its "AMAZE(ING)" values:

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

In order to develop and embed this culture, Metro Bank seeks first to hire "colleagues" (not "staff") with the right attitude and train them with the appropriate skills to AMAZE its customers. These colleagues attend Metro Bank University throughout their careers to learn and develop the skills necessary to provide a customer service experience that matches or exceeds that of best-in-class specialist retailers. Metro Bank University has also created 'colleges' with curriculums to develop colleagues across the organisation so that as Metro Bank grows, where practicable it "grows its own" into senior or specialist positions within the Company.

Metro Bank's superior customer experience is supported by a scalable, innovative and flexible end-to-end technology infrastructure that equips Metro Bank's colleagues to focus on creating an "AMAZEING" customer experience. For example, the speed at which Metro Bank opens accounts both in store and digitally is believed to be industry-leading by the Directors: following a robust "Know Your Customer" process (which includes anti-money laundering, anti-fraud and, where appropriate, credit checks), Metro Bank was able to open approximately 89 per cent. of accounts for new-to-bank customers in its retail segment (the "**Retail segment**") within 30 minutes in 2018. Additionally, Metro Bank launched an industry leading current account online opening process in January 2018, which allows customers to digitally open an account using "selfie" identification and verification ("**ID&V**") online within 10 minutes. Metro Bank's emphasis on delivery at the point-of-sale means that these new-to-bank customers leave a Metro Bank store with a fully functioning current account (including access to telephony, internet and mobile banking, with customers assisted in downloading the Metro Bank mobile application in store at the time of application) and an activated contactless debit card printed in store, for which they set their own pin number, thus requiring no repeat store visits or mailings to complete their account opening process. Furthermore, customers have 24/7 access to UK-based contact centres staffed by Metro Bank colleagues that utilise real-time, skill-based routing for customer calls.

Metro Bank has also continued to invest in its "back office" infrastructure, enhancing operational performance and resilience, including by seeking to implement straight through processing and "Single Customer View" functionalities, as well as a customer photograph and real-time history of previous interactions across all channels. In addition, Metro Bank has leading cybersecurity controls, including web application firewalls to protect its external websites, malware detection tools to protect data, and a 24/7 managed security service to monitor its IT infrastructure. These tools and services help improve customer experience, protect customers' data and money, as well as drive cost efficiency, which is a key area of focus for Metro Bank.

Metro Bank is primarily funded by deposits from its Business and Retail customers, drawings from the Bank of England's TFS scheme, repurchase agreements, capital provided by shareholders, and the 2018 Tier 2 qualifying bond. As of 31 March 2019, Metro Bank had total assets and liabilities of £22,194 million and £20,788 million, respectively. As of 31 December 2018, Metro Bank had total assets and liabilities of £21,647 million and £20,244 million, respectively (31 December 2017, £16,355 million and £15,258 million; 31 December 2016, £10,057 million and £9,253 million).

History and development

Metro Bank was founded by Vernon W. Hill, II in 2010. Leveraging his experience as the founder of Commerce Bank in the U.S. (which he founded in 1973 as a one-branch bank in Philadelphia with a staff of nine, and which grew to have approximately 440 stores and $50 billion in assets by 2007 when Mr. Hill left the bank), Mr. Hill established Metro Bank with the belief that the value of a bank lies in its deposits, that customers in the UK would be willing to accept lower interest rates in exchange for a better banking experience, and that great companies and brands are built by creating “FANS” not simply “customers”.

Selected key milestones in Metro Bank’s recent history are set out below:

2016: Completes £400 million private placement and premium listing on the London Stock Exchange. Named “Most Trusted Financial Provider” by Moneywise. Customer accounts exceed 900,000.

2017: Opens its one millionth customer account and exceeds 1.2 million accounts by the end of 2017. Again named “Most Trusted Financial Provider” by Moneywise.

2018: Deposit balance grows to £15.7 billion and lending to £14.2 billion as of 31 December 2018. Continues investment in technology with the launch of online current account and opens its 65th store in Ashford, Kent. Customer accounts exceed 1.6 million by 31 December. Named “Best All Round Personal Finance Provider” and “Best Digital Onboarding Strategy” by Moneywise.

2019: Voted first for overall quality of service for personal current account customers in CMA Service Quality surveys and second in service for business customers. Named as one of Glassdoor’s “2019 Top 50 Places to Work” (and the highest rated bank on the list). Awarded the largest C&I grant (£120 million), designed to improve banking capabilities to serve SME customers.

Strengths

Adopting a growth retailing approach to banking, Metro Bank creates “FANS” through its unique service-led culture, and the tangible delivery of simple and fair banking products across all channels. Metro Bank has built a completely new trusted consumer brand in the past nine years, with the platform and management in place to continue to expand its share of the UK retail and commercial banking market.

The Directors believe the key strengths of Metro Bank are:

1. a growth retailing approach to banking; successfully creating “FANS” through its unique service-led culture;
2. differentiated and integrated customer proposition providing tangible and innovative delivery of retail and commercial banking services at point-of-sale;
3. clear focus on core retail and commercial banking activities with simple and fair products and services supported by innovative business partnerships;
4. strong growth track record, with a significant opportunity for continued controlled gains in market share through delivery of a differentiated model;
5. low-cost sticky deposit base attracted through a differentiated service-led customer proposition delivers low cost of funding;
6. low-risk lending driving strong asset quality;
7. robust capital and liquidity positions; and
8. leadership and management with a track record of proven success.

Further detail on Metro Bank’s key strengths is set out below.

1. A growth retailing approach to banking; successfully creating “FANS” through its unique service-led culture

Metro Bank’s unique service-led culture cultivates the provision of superior customer service, with the goal of transforming customers into long-term “FANS”. Metro Bank’s focus on execution ensures customer needs are satisfied, and often exceeded, without delay via the channel of the customer’s choosing. Metro Bank’s culture is clear and pervasive across its colleagues, ensuring they are aligned with Metro Bank’s customer-centric strategy. This promotes customer advocacy and brand strength through an association with a differentiated service. Metro Bank’s stores, at the core of its integrated distribution capabilities, are designed to support its customer-centric culture, promote its brand proposition and drive customer engagement.

Metro Bank’s customer-centric culture enables it to provide a differentiated service and convenience, which the Directors believe is comparable to that of some of the leading brands in retail. A second colleague is consulted before saying "no" to a customer where deemed appropriate (known as the "one to say yes, two to say no" rule), and high levels of engagement are encouraged which have a positive "surprise and delight" impact on customer experience. This is supported by the provision of services that are simple, with a strong focus on customer convenience. For example, legacy bank rules that restrict or frustrate customers have been replaced by unique approaches such as "early until late" store opening hours, 362 days a year. Metro Bank is committed to providing face-to-face execution for almost twice as many hours throughout the year as incumbent banks, with services through its digital channels and contact centre offered 24/7. By making customers' lives easier, Metro Bank seeks to create "FANS for life", building long-term relationships and brand loyalty, having achieved 86 per cent. brand recognition in 2018 across London (and 54 per cent. brand recognition in the UK) (*Source: YouGov independent survey, February 2019*), with minimal annual external advertising expenditure.

Metro Bank's customer service is delivered by a highly motivated and engaged team of colleagues. This is reflected in the results of the internal 2018 colleague engagement survey, which evidenced high colleague engagement for the quality of Metro Bank's training, review process, opportunities for promotion and fairness of reward. In Metro Bank's annual voice of the colleague survey, 96 per cent. of over 90 per cent. of colleagues surveyed said Metro Bank is a good place to work. Metro Bank's customer-centric culture is reinforced by its recruitment and training, and Metro Bank is committed to hiring colleagues with the right attitude, especially in customer facing roles, and then training for skills as needed. Metro Bank safeguards its culture by enrolling every new colleague on the two-day cultural induction training programme, "Visions". This is followed by three to six weeks of service and skills training and then up to nine months follow-on development and training for colleagues in entry level customer service roles, including professional banking qualifications. Through regular colleague reviews based on balanced metrics focused around customer service and risk rather than sales (store colleagues do not have sales targets); internal and professional training qualifications; a share-option scheme; colleagues are nurtured and rewarded as custodians of the Metro Bank culture and business. Accordingly, Metro Bank colleagues are highly motivated to deliver superior customer service.

By providing distinguished customer service and simple, transparent, value-for-money products, Metro Bank has developed a brand and reputation that has grown through recommendations and public recognition from industry, consumer advocacy and other community groups. For example, Metro Bank has been ranked first for overall quality of service for current accounts and second for business current accounts in the CMA Service Quality Survey. Metro Bank has also attracted recognition for its commitment to providing its customers with unparalleled levels of service and convenience, including being named moneynet.co.uk's Best All Round Personal Finance Provider in 2018, Retail Banker International's Best Digital Onboarding Strategy, Moneyfact's 5-star rated standard current account, finalist at the British Bank Awards 2018 and Glassdoor's 2019 'Best Places to Work'.

Using its stores as a key part of its tangible gateway to customer engagement, Metro Bank has further enhanced its brand recognition through active engagement with the local community. Metro Bank interacts with local business and residents by hosting events in-store, holding over 3,500 in 2018, and delivered its Money Zone financial education course to 41,000 schoolchildren in 2018. Metro Bank's engagement with customers in store and in the local community contributed to Metro Bank having been ranked first for overall quality of service for current accounts and second for business current accounts in the CMA Service Quality Survey. Metro Bank's distinct culture, focus on customer service and growing brand have driven customer accounts growth from 275,000 at December 2013 to 1,620,000 at December 2018.

2. Differentiated and integrated customer proposition providing tangible and innovative delivery of retail and commercial banking services at point-of-sale

Metro Bank provides a differentiated level of convenience for customers through its integrated customer experience between in-store, app-based, online and telephonic banking services. Metro Bank puts control with its customers to use the channel of their choice at a time of their convenience, at any point in the customer journey, with 33 per cent. of current account holders using both physical and digital services in the last 90 days. Metro Bank's colleagues are able to access a "Single Customer View" for all products and services consumed by a given customer, as well as a customer photograph and real-time history of previous interactions across all channels through a single bank-wide system. As a result, Metro Bank is able to deliver a faster, more informed, service to customers.

Stores

Metro Bank provides the tangible delivery of its customer service proposition through its network of strategically located stores. Modelled on contemporary retail outlets, Metro Bank's stores are situated on selected high-street locations to maximise customer convenience and engagement. Metro Bank's stores to date have been typically larger and more spacious than traditional bank "branches", resourced with well-trained, highly engaged customer-focused colleagues. However, as the Metro Bank brand is established, store formats will be flexible and modularised to fit the local markets in which they operate. In addition, Metro Bank's stores are open seven days a week with longer hours than competitors (typically 8.00 a.m. to 8.00 p.m. on weekdays are the standard hours across the store network to help ensure dependability for customers). Metro Bank has purposefully designed its stores to create a welcoming environment and provide timely customer service at peak times. Metro Bank's innovative straight through and real-time processing allows new and existing customers to open an account and receive a new or replacement card and PIN number (and cheque book, if requested) at the point-of-sale with no need for second day follow-up. With free wireless internet in store, Metro Bank's customers are able to set up their mobile and online banking before leaving the store on the day of opening their account.

Digital channels

Metro Bank provides a wide range of innovative online banking services to customers. In 2016 Metro Bank launched a new, commercial banking platform based on advanced technology. This enables commercial clients to manage their day-to-day banking, including authorising payments, bulk payment processing, and transaction searching. In 2018, Metro Bank launched its online current account opening process to new-to-bank retail customers. This enables an account to be open in 10 minutes based on technologically advanced "selfie" Identification & Verification ("**ID&V**"). New-to-bank customers are also able to open instant access and fixed-term savings accounts online. Existing customers can open additional accounts easily online in no more than six clicks (depending on the product), including current accounts, cash accounts, instant access savings accounts, fixed term savings accounts, instant access ISA accounts and overdrafts. The online proposition provides a range of additional value-added services featuring innovative, user friendly functionality that meets customer needs. Most recently in 2018, Metro Bank built a state-of-the-art Application Programming Interface ("**API**") layer to support the UK Open Banking ("**Open Banking**") initiative and enable direct integration with innovative third parties.

Mobile banking is a key part of Metro Bank's integrated customer experience distribution capability, with the number of customers that have activated the mobile application increasing to over 70 per cent. as at 30 April 2019 and customers using the application on average 25 times per month. Metro Bank continues to invest in and upgrade its mobile proposition as it reacts to and anticipates changing customer behaviours. For example, in 2014, Metro Bank developed the capability to freeze and unfreeze misplaced cards in real-time. Metro Bank also continues to invest in the integration between its digital platforms. In 2015, Metro Bank began building its new integrated corporate digital banking platform, aiming to provide consistent design and functionality across desktop, mobile, tablet etc. This was delivered in 2016 and was followed by a new mobile application for retail and small business customers in early 2017. Since its launch, additional functionality has been added to the mobile application, including support for Apple Pay, setting up new payment beneficiaries, international payments functionality, and the ability to open a savings account directly in the app. Metro Bank has the second highest rated banking app overall (rated 4.8 out of 5) in Apple's App Store as at 31 March 2019. In addition, Metro Bank launched "Insights", a cutting edge artificial intelligence ("**AI**") powered money management tool for customers, on its application in October 2018.

Contact Centres

Metro Bank's customer network is supported by contact centres with colleagues to provide assistance with banking queries and services. By integrating the cloud-based Genesys Interactive Intelligence technology with its Microsoft Dynamics CRM and Pindrop telephony risk platform, Metro Bank has established real-time skill-based routing and risk-based authentication for customer calls. Metro Bank was Highly Commended by Moneywise for Best Current Account Provider for Call Centre Service three years in a row.

E-mail and social media customer interaction

Metro Bank actively uses social media as a channel for customer engagement. For example, Twitter has become the principal channel for some customers to communicate with Metro Bank, and Metro Bank has begun to see an increasing number of regular customers using Twitter. Accordingly, Metro Bank monitors

Twitter for both positive remarks on new propositions, such as the reaction to the launch of its current account online platform and new updates to its mobile banking app, as well as any customer complaints. Metro Bank also monitors trends on social media directed at competitors, such as complaints regarding customer service or digital banking applications, to inform Metro Bank's own differentiated customer proposition strategy.

3. Clear focus on core retail and commercial banking activities with simple and fair products and services supported by innovative business partnerships

Metro Bank is the only new High Street bank offering a full service transactional platform focused on retail and commercial customers, specifically the underserved small and medium-sized enterprises ("**SME**") market, to have opened in the last 100 years in the UK. As of 31 December 2018, Metro Bank had a balanced exposure to both segments, with Retail segment customers accounting for 47 per cent. of deposits and 69 per cent. of Metro Bank's loan book (31 December 2017, 47 per cent. and 67 per cent., respectively).

Metro Bank provides simple and fair products, supported by a differentiated service and convenience-led proposition at point-of-sale across every channel. For example, Metro Bank offers one retail current account product and one cash account product, which can both be opened at point-of-sale end-to-end in-store within 30 minutes. The incumbent high-street banks in the UK offer, on average, five different current account products, which can take days or weeks to open. Retail segment customers are offered a "savings promise" on variable deposits to ensure customers have access to Metro Bank's best available rate for each variable account, and consistent pricing across channels that ensures new customers do not receive a more favourable rate than existing customers. The Directors believe that Metro Bank's consistent pricing extended across all channels has helped Metro Bank build trust with customers, turning them into "FANS".

Metro Bank further differentiates its product offering by providing a personalised service to its Retail segment customers. For example, while all Metro Bank residential mortgage loans are initially assessed by automated underwriting software, each residential mortgage application also currently undergoes an element of manual (i.e., human) underwriting, with a view to providing its customers with the most suitable loan based on an analysis of their personal circumstances. This personalised service model has delivered a dual-benefit to Metro Bank: strong customer relationships that inspire high retention rates and enhanced underwriting outcomes.

Metro Bank's commercial customers benefit from the same simple and tailored approach. Metro Bank can deliver a one-day account opening experience for accounts that is complemented by tailored product offerings. In Metro Bank's current heartland of London, 15 per cent. of SME business current account switchers chose Metro Bank in 2018 (source: MarketVue Business Banking from Savanta, YE Q4 2018). SMEs receive support on request from local business managers and industry credit specialists. Simple cash management products act as a gateway aimed at creating long-term customer relationships that allow Metro Bank to fulfil a customer's banking needs across a full suite of transactional products, including business current accounts, savings accounts and term lending. As of 31 March 2019, 52 per cent. (31 December 2018, 53 per cent.; 31 December 2017, 53 per cent.) of Metro Bank's customer deposits were from commercial customers.

Metro Bank strengthens its relationships with SMEs through valuable business partnership agreements. Metro Bank has successfully established partnerships with business service providers such as Xero, to generate a unique platform of services to support SMEs. Xero provides Metro Bank's customers with the ability to streamline their accounting and banking processes, reconcile their accounts with one click, manage their business data in one place and create smart reports and professional invoices on the move, through an app. A new partnership with the Forum of Private Business launched in the second quarter of 2018 gave SME customers access to downloadable guides and templates and a helpline to answer questions about wider business topics such as HR, compliance and health and safety. Additionally, Metro Bank has launched a new "walk out working" payment acceptance terminal pilot, again extending Metro Bank's SME offering. Metro Bank also partners with local-area professionals, such as lawyers and accountants, in order to build relationships within communities and provide banking services meeting local needs. Networking events are held regularly in store to bring together local communities and discuss relevant business topics.

4. Strong growth track record, with a significant market opportunity for continued controlled gains in market share through delivery of a differentiated model

Delivering Metro Bank's unique service-led culture through its integrated physical and digital channels, Metro Bank has benefited from a strong track record of growth of customer accounts, deposits, organically originated residential mortgage loans and of business and commercial accounts and lending over the year, representing a disruptive force in the UK banking market.

As Metro Bank has expanded its integrated platform, driven primarily through its 66 stores, it has acquired over 1.7 million customer accounts as of 31 March 2019 (31 December 2018, 1.6 million; 31 December 2017, 1.2 million). Metro Bank's store expansion, with ten stores opened in 2018, is matched by increasing rates of customer account growth, with 400,000 net customer accounts added during 2018. Metro Bank has also grown deposits; as of 31 December 2015, 2016, 2017 and 2018 deposits from customers were £5,108 million, £7,951 million, £11,669 million and £15,661 million, respectively. Although customer deposits fell modestly following Metro Bank's announcement of the adjustment of its RWAs in January 2019 to £15,095 million as at 31 March 2019, customer deposit growth has been historically strong year on year, with 34 per cent. growth in 2018 compared to 2017. Metro Bank's net loans to customers and loan to deposit ratio are set out below.

			Year ended 31 December			
	2018	*2017*	*2016*	*2015*	*2014*	*2013*
			(unaudited)			
Net Loans to Customers (£ million)	14,235	9,620	5,865	3,543	1,590	751
Loan to Deposit Ratio (%)	91	82	74	69	56	57

As of 31 December 2018, Metro Bank had a total deposit market share of 0.7 per cent. of a total UK deposit base of approximately £2.3 trillion (*source: Bank of England*). Deposit growth has been matched by increasing geographic diversity, as Metro Bank has extended its physical network coverage through store expansion into further conurbations in the South East and of late into the Midlands, East and South West. Historically, Metro Bank has been geographically focused in London and the surrounding commuter areas: from Peterborough to Brighton and from Swindon to Canterbury. Last year Metro Bank expanded into Bristol, Southampton and Northampton. As Metro Bank further expands its footprint into the South West, Wales, the Midlands and the North of England, there is a compelling opportunity for growth and diversification across the UK banking market. The grant from the C&I Fund will allow Metro Bank to accelerate its national store coverage by funding the expansion to the North of England with 30 new stores by 2025, increasing Metro Bank's coverage to over two-thirds of UK SME hot spots from approximately 30 per cent. currently (*source: Charterhouse SME Finance and Banking Report, 2016, SMEs defined >£25m turnover*). Metro Bank has already signed leases for new stores in Manchester and Liverpool.

Free from the risks associated with volatile interbank wholesale funding, customer deposit growth has helped fund £14,269 million of gross loans and advances to customers as of 31 December 2018 (31 December 2017, £9,634 million). The Directors believe that Metro Bank had an approximately 0.7 per cent. market share in residential mortgages in the UK as of 31 December 2018. Of Metro Bank's total asset base as of 31 December 2018, 87 per cent. was organically originated through Metro Bank's full service retail and commercial transactional banking platform.

The Directors believe there remains a significant opportunity for further controlled growth in existing and new markets. Building on an established brand, with 86 per cent. brand recognition in London (*Source: YouGov independent survey, February 2019*) where Metro Bank has the majority of its stores, and a growing network of customers outside London, the Directors expect to be able to fund continued controlled asset expansion through Metro Bank's growing share of the deposit market. Metro Bank has continued to develop online customer acquisition capability, launching online savings accounts openings in late 2015 and online current account openings at the start of 2018. With this technologically advanced service, customers can apply using "selfie" ID&V. Supporting the tangible delivery of its integrated customer engagement proposition, Metro Bank expects to also continue to further its geographic expansion along commuter lines out of London, to the West, into the Midlands and into the North, aiming to open approximately eight new stores a year across England and Wales over the medium-term, in addition to a further 30 new stores in the North of England, the staffing of which will be partly funded by Metro Bank's grant from the C&I Fund. Metro Bank has committed to the C&I Fund to open these stores by 2025, although it is targeting their opening by the end of 2023.

5. Low-cost sticky deposit base attracted through a differentiated service-led customer proposition delivers low cost of funding

Through its growth in customer deposits, Metro Bank has built an efficient and high-quality funding profile. As of 31 December 2018, Metro Bank had £15,661 million of customer deposits and served over 1.6 million customer accounts (31 December 2017, £11,669 million and 1.2 million accounts; 31 December 2016, £7,951 million and 915,000 accounts). By employing a deposit-driven funding model, Metro Bank derives a material economic benefit through lower than average funding costs. As Metro Bank has grown its customer base across retail and commercial markets, it has maintained the percentage of deposits held in stable current accounts (predominantly non-interest bearing), further enhancing these benefits. Through the delivery of superior service and convenience at point-of-sale promoted through customer advocacy, Metro Bank has achieved growth in both deposits and current accounts. From 2016 to 2018, deposits grew 97 per cent. from £8.0 billion to £15.7 billion and current accounts grew 105 per cent. from £2.3 billion to £4.7 billion, with current accounts accounting for 30 per cent. of total deposits as at December 2018. Metro Bank has received industry-wide recognition for its current account proposition, having won Best Current Account for Branch Service year after year (Moneywise, 2014-2018), and a 5-star rating for its Standard Current Account (Money Facts, 2018). In 2016, Metro Bank was recognised as Most Trusted Provider of Current Accounts and was Highly Commended in the same category the following two years (Moneywise, 2016, 2017 and 2018).

Metro Bank's differentiated proposition has enabled it to reach an average cost of deposits of 61 basis points ("**bps**") in 2018, up by only 7 bps over the previous year despite interest rate increases of 25 bps in November 2017 and in August 2018 and below the current Bank of England interest rate. The table below sets out Metro Bank's deposits from customers for the years ended 31 December 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018. Metro Bank's cost of deposits for the years ended 31 December 2015, 2016, 2017 and 2018 were 82 bps, 79 bps, 54 bps and 61 bps respectively.

	2018	*2017*	*2016*	*2015*	*2014*	*2013*	*2012*	*2011*	*2010*
					(£ million)				
Deposits from Customers	15,661	11,669	7,951	5,108	2,867	1,315	576	152	18

The Directors believe that Metro Bank also benefits from a scalable operating platform, allowing it to grow its deposit base as it attracts both new customers and more deposits from existing customers at a low cost per deposit.

Metro Bank also benefits from a stable deposit base. Metro Bank has set its liquidity risk appetite in the context of its stable deposit business model and a conservative medium-term loan-to-deposit ratio of 85 to 90 per cent. (100 per cent. as of 31 March 2019; 91 per cent. as of 31 December 2018 and 82 per cent. as of 31 December 2017). Based on nine years of trading data, Metro Bank has been able to statistically demonstrate the stability of its deposit base through a core deposit stability analysis, dividing cohorts of seasoned customer deposits into "core" balances (the base level of deposits that has never been breached in a representative sample of accounts) and "non-core" balances. Both retail and business customer deposits exhibit a high core ratio, such as Metro Bank's retail deposits at 96 per cent. and business deposits at 92 per cent., as of 31 March 2019, and are expected by the Directors to have a high longevity and be relatively stable in the event of a liquidity stress.

6. Low-risk lending driving strong asset quality

Metro Bank's strong track record in asset growth has been matched by consistently strong asset quality. Asset accumulation has been achieved while maintaining a lending portfolio with a conservative DTV Ratio profile. The average DTV Ratio was 59 per cent. (31 December 2017: 58 per cent.) for commercial lending and 61 per cent. (31 December 2017: 60 per cent.) for retail lending as at 31 December 2018. Metro Bank's non-performing loans ratio was 0.22 per cent. as of 31 March 2019, 0.15 per cent. as of 31 December 2018, and 0.27 per cent. as of 31 December 2017, and its loan loss reserve to non-performing loans ratio was 162 per cent. as of 31 December 2018 (31 December 2017, 55 per cent. and 31 December 2016, 103 per cent.). Metro Bank's low average cost of risk to date, 0.07 per cent. in 2018 (0.11 per cent. in 2017), illustrates Metro Bank's rigorous credit focus.

	Year ended 31 December		
	2016	2017 (unaudited)	2018
Cost of Risk (%)	0.10	0.11	0.07

The DTV profile of retail mortgages and commercial lending as of 31 December 2018 is set out in the below table.

	As at 31 December 2018 DTV Ratio (%)							
	Less than 50	*51-60*	*61-70*	*71-80*	*81-90*	*91-100*	*More than 100*	*Total*
	(£ million)							
Residential Mortgage Lending	2,124	1,195	1,374	1,362	1,205	80	11	7,351
Retail buy-to-let	458	493	553	596	129	33	12	2,274
Total retail mortgages	2,582	1,688	1,927	1,958	1,334	113	23	9,625
Commercial lending	1,277	936	791	249	100	51	424	3,828

7. Robust capital and liquidity positions

Metro Bank maintains a robust capital position with a comfortable buffer to regulatory requirements through a target of minimum CET1 ratio of 12 per cent. and regulatory leverage ratio greater than 4 per cent. As of 31 March 2019, Metro Bank had a CET1 ratio of 12.1 per cent. and a leverage ratio of 5.2 per cent. (13.1 per cent. and 5.4 per cent. respectively as of 31 December 2018). On a pro forma basis after giving effective to the expected net proceeds of the Placing, Metro Bank will have a CET1 ratio of 15.8 per cent. and a leverage ratio of 6.7 per cent., giving Metro Bank additional capital headroom for future growth. The high quality of Metro Bank's loan book has minimised the need to make provisions, with only a £34 million provision for loan losses as of 31 December 2018. Strong growth and low-cost deposit aggregation coupled with low risk lending have generated strong revenue growth that supports Metro Bank's increasing profitability and organic capital generation. Metro Bank's Underlying Profit before Tax for the year ended 31 December 2018 was £50.0 million (31 December 2017, £20.8 million). The table below sets out the quarterly Underlying Profit Before Tax for each quarterly period in 2017 and the first quarter of 2019.

	Q1 2017	*Q2 2017*	*Q3 2017*	*Q4 2017*	*Q1 2018*	*Q2 2018*	*Q3 2018*	*Q4 2018*	*Q1 2019*
	(£ million) (unaudited)								
Underlying Profit Before Tax	2.0	4.0	7.2	8.3	10.0	14.1	15.1	11.2	6.9

Metro Bank has consistently raised capital to pre-fund its growth ambitions which in turn, supports the delivery of its strategy. As a high-growth bank, it is likely that Metro Bank will require further capital to support its growth and return potential. Metro Bank may issue equity in the medium-term and will also need to meet interim MREL requirement and buffers of 21.5 per cent. of RWAs by 1 January 2020, and it plans to raise up to £500 million of MREL-eligible debt in the second half of 2019.

8. Leadership and management with a track record of proven success

Metro Bank has assembled a Board of Directors (the "**Board**") and Executive Leadership team with high-quality experience of leadership and operational positions in the banking and retail sectors.

Metro Bank's Chairman and founder, Vernon W. Hill, II, has a proven track record of launching and successfully growing a bank, having founded Commerce Bank in 1973 in the USA. Between 2001 and 2006, Commerce Bank achieved an annual average growth rate of 30 per cent. for deposits and 28 per cent. for loans (net), growing its number of stores from 184 to 428 during this period. Vernon has been recognised in Forbes' elite 20-20-20 club, a list of CEOs who have served for 20 years at the helm of a public company and have delivered at least a 20 per cent. annual return-on-equity for shareholders since their respective companies went public. Commerce Bank was sold to TD Bank Financial in 2007 for $8.5 billion. Based on an economic model of maximising the number of deposits per branch from a fixed central cost base and a customer-centric culture focused on exceeding customer expectations, Commerce Bank established its brand as "America's most convenient bank". Metro Bank's business model is based on the proven model of Commerce Bank, with the same founder on board to deliver success.

Metro Bank's founding Chief Executive Officer ("**CEO**"), Craig Donaldson, has significant experience in the UK banking sector, with previous roles including Managing Director of Retail Products and Direct Channels at RBS, as well as senior roles with Barclays and HBOS.

Metro Bank's Chief Financial Officer ("**CFO**"), David Arden, is a member of the Chartered Institute of Management Accountants with previous roles in the banking industry, including various senior finance and operational roles including CFO of Sainsbury's Bank, as well as Managing Director of RBS/NatWest credit cards and Finance and Risk Director for Tesco Bank.

With a wealth of experience in UK banking, Metro Bank's Executive Directors and senior leaders have complementary experience and a wealth of industry knowledge, making them well equipped to drive Metro Bank's retailing approach to banking.

Strategy

Metro Bank intends to remain a business focused on creating "FANS", attracting low-cost sticky deposits and growing low-risk lending through its service-led culture and integrated customer experience. The Directors believe this differentiated core strategy will continue to deliver low-risk, high quality earnings. Metro Bank intends to continue pursuing a controlled growth retail model for modern-day banking, complemented with a medium–term strategy which balances growth, profitability and capital efficiency through an integrated customer experience.

Core Strategy

Create "FANS" by generating exceptional retail experiences

At the heart of Metro Bank's strategy is the conversion of customers into "FANS" through the delivery of a differentiated customer experience.

Customer engagement: Metro Bank aims to provide a superior customer proposition designed to drive customer engagement and build long-term relationships. Metro Bank intends to drive increased customer engagement through differentiated customer service and convenience, the delivery of seamless distribution capabilities across all channels and continued offering of simple, fair and transparent products. As Metro Bank continues to expand its presence across all channels, the Directors believe that its brand awareness will continue to improve, from a strong position of 86 per cent. in London (*Source: YouGov independent survey, February 2019*), to support increased customer acquisition.

Customer friendly policies: Metro Bank has differentiated policies that deliver a unique retail experience. For example, "early until late" store opening hours, 362 days a year. Metro Bank is committed to providing face-to-face execution for almost twice as many hours throughout the year as incumbent banks, with services through its digital channels and contact centre offered 24/7. In store Metro Bank provide free pens and coin counting. By seeking to make our customers' lives easier, Metro Bank seeks to create "FANS for life".

Foster a unique service-led culture of fanatical execution through colleague engagement

Metro Bank is built around a customer-centric culture with clear strategic ambition to create "FANS". Metro Bank is committed to maintaining a well-trained and motivated team of colleagues to drive customer engagement across all channels to create profitable long-term relationships and grow the Metro Bank brand.

Recruitment, training and reward: As the tangible point of service delivery, the Directors believe that ensuring colleagues are continuously well-trained, motivated and aligned to the Metro Bank purpose and culture is central to providing a superior customer service. Accordingly, Metro Bank hires customer facing colleagues with the right attitude and trains them for skill, ensuring Metro Bank colleagues act professionally and provide levels of service and engagement that match or exceed best-in-class retailers. Metro Bank intends to invest continuously in the development of its workforce, providing ongoing training through "Metro Bank University". Appraisals will continue to be based on the effective delivery of Metro Bank's culture and customer service standards rather than product sales targets for front line employees, with share options given to every colleague through a variable reward programme. Motivated by meritocratic opportunities and equity ownership, the Directors expect colleagues to continue to deliver fanatical execution of the Metro Bank model.

Transform deep customer relationships into profitable balance sheet growth

Low cost funding model: As a deposit-driven institution, the Directors recognise the importance of acquiring and retaining customers, and their deposits, as a central component of the Metro Bank's profitability. Metro Bank intends to continue to deliver a customer service-led proposition for growing FAN numbers and, by association, deposit balances. The Directors expect funding costs to continue to benefit from this strategy as customers place significant value on service and convenience.

Established customer base of "FANS": By creating "FANS" through, among other things, what the Directors believe to be an unparalleled account opening experience, Metro Bank seeks to create customer loyalty and inspire customers to fulfil all of their retail and commercial banking needs through Metro Bank. For example, a key driver of growth is the provision of a broad suite of cash management solutions aligned to commercial customer needs. This allows Metro Bank to create an increasing incumbent commercial customer base to whom it can provide additional products upon request, supporting further balance sheet growth and generating additional fee income. By establishing a current account base of "FANS", Metro Bank aims to lock-in the annuity value of its relationships, given the stickiness and transactional nature of the accounts.

Customer-centric underwriting processes: Metro Bank utilises its deep customer relationship to inform its risk assessment. For example, Metro Bank has established "three lines of credit defence" for Business segment lending, comprising a relationship manager, credit partner and credit assurance (audit). Metro Bank's differentiated approach means that credit partners will often meet the borrower in person along with the relationship manager to assess more fully the individual customer circumstances, before deciding whether to recommend the credit for approval. This approach enables a more granular underwriting process, improving the quality of the loan book. The in-person contact with the credit partner also provides a personalised service to the customer improving customer satisfaction. Metro Bank intends to continue deploying the "Credit Partner Model" as the business expands.

Full service retail and commercial offering: Metro Bank intends to continue to offer a full service transactional banking platform to its customers. Metro Bank's Business segment customers are a key driver of income growth and are characterised by typically larger deposit balances and more complex requirements. The Retail segment proposition is core to Metro Bank, in particular for the support it provides to its brand and recognition.

Tangible delivery of simple, great value products at point-of-sale across all channels

Metro Bank aims to "surprise and delight" customers across every channel they use through superior service and convenience, simple and fair products and tangible delivery through every channel.

Store strategy: Metro Bank intends to continue providing real-time straight through processing to customers at the point-of-sale via its network of stores. Metro Bank aims to offer the fastest and most convenient account opening experience in the UK market through all channels and over time intends to develop more assisted service and self-service opportunities in stores. Metro Bank intends to continue expanding the catchment area of its store network through strategic expansion around London and the South East of England, further west and north along the key commuter lines and into the Midlands and the North of England, delivering superior service and convenience to an increasing number of "FANS".

Metro Bank intends to expand the network nationwide "one store at a time". This prudent approach ensures Metro Bank invests only in the best sites that fulfil all of its strict internal criteria, being in visible and high traffic locations, generating significant growth in customer numbers without needing multiple stores in the same area. Metro Bank also employs an experienced "store delivery" team to ensure the store delivers Metro Bank's high standard of customer service from day one, before handing over the store to the new store management.

Metro Bank's integrated "bricks and clicks" experience offers customers an integrated experience, where physical store expansion is complemented by additional channels, including online, mobile and intermediaries, presenting national growth opportunities. Metro Bank will continue to invest in digital channels to increase digital origination, fulfilment and servicing.

Digital strategy: In 2017, Metro Bank invested in its API layer, designed to create an environment that supports innovation and added-value services for its customers. The API layer allows Metro Bank the flexibility to evolve in the new era of banking where sharing of data and third-party relationships are expecting to become increasingly frequent. Metro Bank is well positioned to take advantage of greater interconnectivity and is actively seeking innovative partnerships and opportunities to invest in areas where there is potential to "surprise and delight" even more "FANS" across a number of themes: from enhancing Metro Bank's customer services and benefits to streamlining internal processes through partnerships with third parties and FinTech companies.

Metro Bank intends to continue to expand its digital capabilities, desktop and mobile services, to deliver an integrated customer experience, and give customers easy access to multiple products and services across channels, as well as digital tools that save time and improve transparency, to make customers' lives easier and drive cost efficiencies for Metro Bank. Metro Bank will leverage its modern, technologically advanced infrastructure to build new and innovative customer experiences. By continually enhancing its mobile capabilities, Metro Bank aims to allow its customers to do more of their banking "on-the-go" by simplifying the customer experience and enriching the functionality for core day-to-day banking needs. In addition, Metro Bank aims to embrace Open Banking by connecting with third parties via APIs to offer customers more integrated experiences including greater choice and new, innovative services. With an active social media presence and an intuitive website, Metro Bank continues to invest to ensure that the digital engagement proposition is as distinctive and differentiating as the customer service received in stores, while driving cost efficiencies for Metro Bank. The grant from the C&I Fund will allow Metro Bank to accelerate its investment in digital and launch game changing digital capabilities for SMEs, such as digital tax submission and online account opening.

Partnering strategy: Metro Bank is committed to assessing the market environment continually to provide value to customers through innovative partnership agreements. Having already established partnership agreements with a range of financial institutions (including St. James's Place), Metro Bank has extended its asset and deposit base in response to entrepreneurial opportunities. Future opportunities with current partners could enable Metro Bank to generate additional fees, while Metro Bank remains open to entering new partnerships and new asset segments. Simultaneously, increasing competence in the cash management space, allied to planned IT, proposition and process enhancements, could enable Metro Bank to attract more trading Business segment customers and generate additional, capital-light, fee income.

Metro Bank also uses business partnership agreements, such as that with Xero, to generate a unique platform of services to support the SME ecosystem. A new partnership with the Forum of Private Business, launched in Q2 2018, gave SME customers access to downloadable guides and templates and a helpline to answer questions about wider business topics such as HR, compliance and health and safety. Metro Bank intends to continue to expand its range of partnership agreements to further differentiate its customer proposition for its SME customers and create profitable long-term relationships with growing businesses of the future.

Mortgage strategy: Metro Bank intends to continue to utilise both direct and intermediary origination channels to grow its residential mortgage portfolio. Metro Bank also aims to maintain an efficient balance between manual underwriting for residential mortgages that account for individual customer circumstances, and automated initial underwriting assessment that enables greater scalability as the business grows. Metro Bank's launch of an online mortgage renewal platform in 2015 has enhanced retention rates for intermediary and directly originated mortgages by aligning the incentives of customers and intermediaries to retain a mortgage product with Metro Bank.

Strategic update

Metro Bank's core strategy of creating fans through its unique service-led culture, attracting low-cost , sticky deposits and growing low-risk lending is working. However, Metro Bank is facing some key challenges, including headwinds from the operating environment. This includes the prolonged low interest rate environment, intense competition in the mortgage market driven by the impact of ring-fencing regulation in the UK on some of its larger competitors, and impact of issuing MREL qualifying debt during 2019. There are also specific challenges for Metro Bank, such as the timing of AIRB approval and the impact of the RWA Matter, including any further actions by the FCA or PRA.

Metro Bank's capital position will, however, be strengthened by its receipt of the net proceeds of the Placing, which will allow it to further grow its loan balances and RWAs, while investing in the expansion of stores and new technologies. These initiatives will be used to counterbalance the adverse effects on its business discussed above and support an evolved growth strategy based on the following four key pillars:

- balance controlled growth, profitability and capital efficiency through an integrated customer experience;
- rebalance lending mix to optimize capital allocation and returns;
- expand range of services to create new sources of income; and
- improve cost efficiency.

While taking steps to raise additional growth equity capital, Metro Bank has also prudently made plans to limit the growth of its loan book and strategic investments to ensure that its regulatory capital levels remain within its risk appetite, with a management target CET1 ratio of 12 per cent. or more. In order to maintain this operational steady state, which does not take into account proceeds of the Placing, Metro Bank would continue to:

- *Limit growth in the lending book.* Metro Bank would not increase the size of its lending book on a net basis, although it would continue to lend to replace declining loan balances. This would allow approximately £2,200 million of new gross lending over the next 12 months and Metro Bank's RWAs to remain broadly flat at approximately £10,000 million.
- *Optimise capital through lending mix.* Metro Bank would continue to reduce its participation in capital-intensive commercial lending until such time as more capital is available to support this business area.
- *Proactively reduce RWAs through disposals or securitisations.* Subject to market conditions, Metro Bank would seek to sell, or reduce risk through the synthetic securitisation of between £500 million and £1,000 million of non-core assets to allow it to continue to invest in its business and potentially support limited RWA growth.
- *Reduce strategic investment in stores.* Metro Bank would seek to change the size and layout of its stores, reducing average square footage from approximately 5,000 to approximately 2,000, as well as limit store growth to seven further stores in 2019 and five in the first half of 2020 (including store openings the staffing of which will be funded in part by Metro Bank's C&I grant).
- *Reduce spend on new IT services.* Metro Bank would seek to reduce its own IT expenditure by approximately 25 per cent. compared to IT expenditure in the previous year.

Balance controlled growth, profitability and capital efficiency through an integrated customer experience

Balanced store growth and geographic expansion: Metro Bank intends to access greater customer numbers through its integrated customer experience capabilities. At the core of its growth strategy is the expansion of the store network, with stores opening in Birmingham and the Midlands in 2019. With 66 stores as of the date of this Prospectus, Metro Bank is planning to open approximately eight new stores per year until 2023, in addition to a further 30 stores to be added in the North of England, the staffing of which will be funded in part by Metro Bank's C&I grant (two of which, in Manchester and Liverpool, are expected to be opened in 2019). Metro Bank has committed to the C&I Fund to open these stores by 2025, although it is targeting their opening by the end of 2023. Metro Bank's updated plan of managed store openings will support more investment in digital whilst allowing existing stores to mature resulting in higher contribution to profitability.

New product expansion: Metro Bank, from time to time, assesses growth opportunities beyond those identified in its strategic plan, including among others, expanding into new complementary products. Metro Bank has identified an opportunity to enter the "Added Value Account" retail market, developing a differentiated offer to meet the needs of their customers, delivering customer acquisition and fee revenue growth. With a continued focus on building Business and Commercial capabilities, Metro Bank is developing a range of improvements, from recently launching a "walk out working" payment acceptance terminal pilot, to developing specialist Trade Finance services to meet the needs of businesses exporting and trading internationally.

Moderated balance sheet growth: Given the prevailing low margin environment, Metro Bank plans to moderate deposit and associated cost growth. Metro Bank is aiming to deliver approximately 20 per cent. deposit growth per annum over the medium-term, while increasing their focus on building relationship-driven, low-cost current accounts as well as variable rate deposit accounts. Metro Bank also intends to balance loan growth to optimise capital efficiency and profitability by maintaining a loan-to-deposit ratio of 85 per cent. to 90 per cent. in the medium-term.

More generally, Metro Bank intends to manage its growth within available equity capital to avoid further medium-term equity raises, and it has additional potential capital levers available to it, including loan portfolio sales and securitisation.

Rebalance lending mix to optimise capital allocation and returns

In order to optimise capital allocation and returns in the prevailing margin environment and deliver an elevated RoE, Metro Bank intends to rebalance its lending mix towards mortgages, SMEs and unsecured lending, driving capital efficiency and yield.

Mortgages: Metro Bank's lending will continue to be built around low risk mortgages, which are cost-efficient and deliver higher RoE. Metro Bank uses a market-leading provider of technology for mortgages in the UK. The technology supports our controlled growth plans through its ability to achieve high levels of process automation, deep integration with leading service providers, responsiveness to product changes, smart task management and the ability to handle substantial increase in volume thereby helping to drive down the cost while providing superior levels of service and convenience to customers and intermediary partners.

Accordingly, Metro Bank is looking to increase the proportion that mortgages represent of its loan book from 67 per cent. at December 2018 to 70 to 75 per cent. by 2023.

Business and commercial: Metro Bank intends to use its own funds and its grant from the C&I Fund to develop capabilities in SME lending and broaden business services, creating opportunities for further higher-returning SME and commercial lending. The £120 million grant will accelerate Metro Bank's growth to become an "at scale" SME challenger by 2025, supporting the launch of game changing digital capabilities, such as digital tax submission and online business current account opening, and the build out of capabilities to serve larger, more complex SMEs such as sweeping/pooling and trade finance capabilities. The grant from the C&I Fund will also allow Metro Bank to expand into new SME markets with 30 new stores in the North. Metro Bank has committed to the C&I Fund to open these stores by 2025, although it is targeting their opening by the end of 2023. Metro Bank is also well positioned to welcome more SME customers to Metro Bank through the Incentivised Switching Scheme. However, in addition, Metro Bank also plans to reduce the proportion of lower-RoE commercial real estate and professional buy-to-let in the loan book, resulting in a reduction in the total proportion that business and commercial loans represent of its loan book from 31 per cent. as at December 2018 to 20 to 25 per cent. by 2023.

Consumer unsecured: Metro Bank is also positioned to take advantage of the normalisation of the risk-reward trade off in consumer unsecured lending in the UK to grow in the unsecured lending and credit card segments. Depending on the evolution of the UK consumer unsecured market, Metro Bank will increase the proportion that consumer unsecured loans represent of its loan book from 2 per cent. as at December 2018 to 3 to 7 per cent. by 2023.

Expand fee income through new value-added services, especially for SMEs, while preserving Metro Bank's unique culture

Metro Bank intends to expand fee income (from 0.46 per cent. of average deposits in 2018) towards best-in-class levels through the introduction of new value-added services to customers, especially for SMEs, while remaining committed to Metro Bank's unique client-focused culture. The Directors believe this can be achieved through a range of initiatives. Metro Bank plans to broaden the service offering to deepen customer relationships, namely by introducing online business account opening and expanding its payments and cash management offering. Metro Bank also intends to increase the penetration of fee-paying services through digital origination, using, for example, an integrated payments platform and an app-based on-demand cash collection service. In addition, Metro Bank aims to use its API gateways to collaborate with third party providers to create a range of propositions for SMEs, such as digital tax submission and cloud-based accounting services. This will be strongly supported by Metro Bank's grant from the C&I Fund. This grant will enable Metro Bank to fund, among other initiatives, the development of the UK's first end to end payments and account receivables platform "MPay", the launch of a commercial credit card product and the introduction of a mobile cash pick-up and drop off service.

Within the drive to increase fee income from SME customers and supported by its grant from the C&I Fund, Metro Bank is particularly focused on expanding its lending, payments and cash management propositions. Metro Bank is aiming to launch one-click access to overdraft financing driven by recently available Open Banking data to deliver a seamless small business lending process. Metro Bank also intends to offer payments and cash management services to support businesses as they grow.

Improve cost efficiency

Metro Bank continues to utilise its scalable IT platform and innovative customer propositions to enable cost-efficient growth across all channels, while maintaining a granular focus on store-level headcount and central costs, as well as customer satisfaction. Metro Bank intends to complement deposit growth through an expanding store network, with increasing acquisition of deposits through the online channel from both existing and new-to-bank customers. Metro Bank's scalable software as a service ("**SaaS**") IT model supports this cost-effective growth by allowing it to service additional customer accounts with only marginal increases in costs.

Metro Bank also seeks to reduce the operating cost per deposit of its store network through innovative customer propositions by evolving its store layouts and unit size. Metro Bank's integrated "bricks and clicks" experience offers customers the choice of channel, so physical customer interactions can also be conducted online or through our mobile app. This digital fulfilment reduces the cost of customer interactions while still providing a differentiated experience. In addition, Metro Bank offers safe deposit boxes for annual or monthly fees in all stores, which can be reserved in-store or online. Metro Bank covers a significant proportion of its store operating costs from safe deposit box income.

In addition, Metro Bank is aiming to further increase cost efficiency by driving additional operational leverage and scaling its growth more efficiently. Metro Bank targets delivering an underlying cost-to-income ratio of 55 per cent. to 60 per cent. by 2023 (compared to levels of approximately 85 per cent. to 92 per cent. in recent periods), with the majority of the improvements coming from a structured programme of initiatives already identified across the head office, back office, front office and stores. Such programme includes initiatives such as the automation of processes in the head office and the back office, moving back office functions to shared service locations across Metro Bank markets, operating model simplification in the front office, new self-serve functionalities in stores by evolving its store layouts and unit size. The benefits of this cost efficiency drive are expected to be skewed towards the outer years as store layout, digitisation and automation initiatives are delivered, and the Company aims to capture cost savings of approximately £70 million to £75 million by 2022, largely through store efficiency initiatives and back-off savings, but 'quick wins' are expected to deliver improvements in 2019 and 2020 (with estimated savings of £15 million to £19 million and £40 million to £48 million, respectively, in those years, as well as approximately £2 million to £3 million in capex savings in 2019). In addition, the Company intends to target capex savings of approximately £40 million to £45 million by 2022, primarily through store rationalisation and IT initiatives. The Company estimates that the cost to achieve these cost savings and efficiencies will be approximately £150 million over three years.

Delivering low-risk, profitable growth leading to enhanced shareholder returns

Metro Bank is committed to achieving balanced and capital-efficient growth combined with increasing cost efficiency to enhance returns to shareholders, delivering low double-digit RoE by 2023.

Metro Bank's analysis of its stores demonstrates that, as stores mature and grow, the return on equity increases as the costs of the store are leveraged over more customers and greater deposits. Stores in cohorts that are open less than three years have negative RoEs, highlighting the impact of initial investments. Stores that have been open more than five years have an average RoE of approximately 6 per cent., demonstrating the improvement that comes with ongoing growth. Together with continued growth, Metro Bank's strategic initiatives will accelerate profit contribution and enhance the returns of the stores. Metro Bank's analysis shows that by making improvements to operating efficiency, achieving an underlying cost-to-income ratio of 55 per cent. would increase the RoE on stores open more than five years to an average of over 14 per cent.

In addition, the Directors expect that investment in capabilities and commercial offering, together with the grant from the C&I Fund, will drive additional capital-light fee income.

Building on balanced balance sheet and revenue growth, Metro Bank intends to deliver further benefits of scale. Deposit growth per store has been faster in each new annual cohort, benefiting from an increased network effect, organisational learnings and increased brand recognition. In addition to the benefits of scale discussed above, Metro Bank intends to execute an operational transformation plan to deliver improved efficiency and a 55 per cent. to 60 per cent. underlying cost-to-income ratio by 2023.

This ambition is reflected on Metro Bank's medium-term guidance below:

	2018 Actual	*Medium-term guidance*
Deposits growth (%)	34	c. 20% per annum, c. 2% market share by 2023
Store growth	10	c.8 new stores a year plus store growth (plus 30 stores in the North of England by 2023, partly funded by grant from the C&I Fund)
Deposit growth per store per month (£ million)	5.9	>4
Loan to Deposit ratio (%)	91	85-90
Cost of Risk (bps)	7	15 – 30 bps through the cycle
Underlying cost to income ratio (%)	86	55 – 60
Common Equity Tier 1 ratio (%)	13.1	>12
Leverage Ratio (%)	5.4	>4
Return on Equity (%)	2.9	Low double digit by 2023

Operating structure

Metro Bank is principally a deposit-taking and lending institution, which it services through two customer segments: Retail (the "**Retail segment**") and Business (the "**Business segment**"). Within its Retail segment, Metro Bank offers products in its personal banking and private banking business lines ("**Personal Banking**" and "**Private Banking**", respectively), and within its Business segment, offers business banking, commercial banking and partnership banking business lines ("**Business Banking**", "**Commercial Banking**" and "**Partnership Banking**", respectively).

Metro Bank provides simple and transparent mass-market deposit and lending products, including current and savings accounts, retail and commercial mortgages, retail and commercial loans, overdrafts and credit cards. Metro Bank also uses its Private Banking business line to provide high net worth customers with the same range of simple banking products supported by a more personalised service model and access to a dedicated private banker. In addition to a strong Retail segment offering, Metro Bank's Business segment customers are offered a growing range of services to complement a relationship-driven offering, including invoice and asset finance and point-of-sale merchant services.

As of 31 March 2019, Metro Bank had 1.7 million customer accounts, and deposits from customers of £15.1 billion, of which 48 per cent. and 52 per cent. was attributable to Retail segment and Business segment customers, respectively. As of the same date, it had loans and advances to customers of £15.2 billion, of which 71 per cent. and 29 per cent. was attributable to Retail segment and Business segment customers, respectively.

Metro Bank's loans and deposits split by segment are set out below:

	As of 31 March 2019 (unaudited) (£ million)
Demand: current accounts	4,532
Demand: savings accounts	6,665
Fixed term	3,898
Deposits from customers	15,095
Deposits from customers includes:	
Deposits from retail customers	7,233
Deposits from corporate customers	7,862
Gross loans and advances to customers	15,201
Less: allowance for impairment	(34)
Net loans and advances to customers	15,167
Gross loans and advances to customers includes:	
Term loans	3,941
Asset & invoice finance	297
Other commercial lending	232
Commercial loans	4,470
Residential mortgages	8,119
Residential mortgages (buy-to-let)	2,330
Consumer and other loans	282
Retail loans	10,731

Culture and colleagues

Metro Bank places significant importance on the strength of its corporate culture and seeks to attract a diverse colleague base that represents the communities it services and is aligned with its culture, customer service proposition and "AMAZEING" values. The Directors believe that Metro Bank has been able to attract talent through a combination of its culture, unique business model, a compensation system that is focused on share ownership and by providing an opportunity to be a part of a dynamic and growing business, which provides it with a strong competitive advantage relative to other High Street banks.

The Directors believe that Metro Bank's growth has allowed it to offer its colleagues more career and promotion opportunities than larger competitors. For example, in 2018 Metro Bank promoted 23 per cent. of its eligible colleagues. Metro Bank also provides a wide range of in-house and online training courses through "Metro Bank University", which is designed to help colleagues learn new and enhance existing skills and has 27 classroom instructors. Colleagues completed nearly 12,000 face-to-face training sessions in 2018.

Metro Bank's approach to reward is also simple. Metro Bank pays base salaries in line with market norms and pays a discretionary variable reward, which is composed of two elements: share options and cash bonus, designed to encourage colleagues to focus on the long-term growth and success of Metro Bank and to behave like owners. Eligibility for variable reward is based on an assessment of behaviours and performance and requires the colleague to have worked for Metro Bank for a minimum of six months at the time of the award. The level of award is also based on behaviours, performance against objectives, role and seniority. Options typically vest over five years after their grant. Colleagues are also allowed to exchange part or all of the cash bonus element of any discretionary variable compensation into their pension or into immediate vesting share options.

Based on an internal survey conducted by Metro Bank in May 2018, the "Voice of the Colleague", 96 per cent. of over 90 per cent. of Metro Bank's colleagues surveyed felt that Metro Bank is a good place to work. Also, in 2019, Metro Bank was recognised by Glassdoor as the highest rated bank in its "Top 50 Places to Work".

Customer engagement and fulfilment

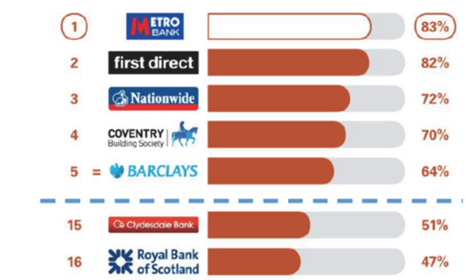
Metro Bank has historically avoided the use (and associated costs) of traditional bank marketing channels, such as radio, print and television advertising, preferring instead tangible engagement with the communities in which it is based. Rather, Metro Bank focuses on the use of its direct distribution channels, comprising its highly visible stores, mobile and internet offerings, and local contact centres, together with its unique customer service proposition, to ensure that its customers become "FANS" of the bank, who then spread the word to their friends, family and business colleagues. Metro Bank also seeks to leverage the strength of its brand and the strategic location of its stores to become part of local communities. For example, through its store network, Metro Bank has worked with an estimated 41,000 children to promote financial education through its UK Key Stage 2 "Money Zone" programme in 2018 alone, with a total of over 100,000 since 2010.

Metro Bank actively uses social media as a channel for customer engagement. For example, Twitter has become the principal channel for some customers to communicate with Metro Bank, and Metro Bank has begun to see an increasing number of regular customers use Twitter. Accordingly, Metro Bank monitors Twitter for both positive remarks on new propositions, such as the reaction to the launch of its current account online platform and new updates to its mobile banking app, as well as customer complaints. Metro Bank also monitors trends on social media directed at competitors, such as complaints regarding customer service or digital banking applications, to inform Metro Bank's own differentiated customer proposition strategy.

Metro Bank's pervasive customer-centric culture enables it to provide a differentiated service and convenience, which the Directors believe is comparable to that of some of the most admired brands in retail. For example, legacy bank rules that restrict or frustrate customers have been replaced by unique policies such as "early until late" store opening hours, 362 days a year. Metro Bank is committed to providing face-to-face execution for almost twice as many hours throughout the year as incumbent banks, with services through its digital channels and contact centre offered 24/7. By championing the needs of customers, Metro Bank seeks to create "FANS for life", building long-term relationships and brand loyalty, having achieved 86 per cent. brand recognition in 2018 across London *(Source: YouGov independent survey, February 2019*), with minimal annual external advertising expenditure.

In February 2019, Metro Bank was recognised as providing the number one for overall service for personal current account customers and number two for business customers in the CMA's Service Quality surveys. As set forth in the charts below, 83 per cent. and 71 per cent. of customers were "extremely likely" or "very likely" to recommend Metro Bank's personal and business services, respectively.

Personal Current Accounts: Overall Quality of Service(1)



Business Current Accounts: Overall Quality of Service(1)

(1) Source: CMA Service Quality Surveys published February 2019

Stores

Metro Bank's store footprint has been, and continues to be, built organically through the opening of new stores placed in strategically selected prime locations to ensure that Metro Bank's operating model is fully aligned with its customer proposition. Metro Bank seeks to open high-visibility (typically with large glass storefronts and designed in Metro Bank's recognisable red and blue colours) stores in prime locations where people live, work and play to achieve an interconnected "network effect" (i.e., an effect through which the visibility and brand awareness of each store enhances and complements that of other stores). As Metro Bank moves forward, it will evolve its store layouts and unit size, introducing more assisted service and self-service offerings, thereby increasing customer choice and driving cost efficiencies for Metro Bank.

Consistent with its emphasis on retail-style customer service and tangible delivery, Metro Bank's stores are open seven days a week with longer hours than competitors (typically 8.00 a.m. to 8.00 p.m., with standard hours across the store network to help ensure dependability for customers), which the Directors believe resonates well with busy people and the businesses that serve them.

Metro Bank's first store opened in Holborn, London on 29 July 2010 and, as of the date of this Prospectus, Metro Bank operated 66 stores. Historically, the location of Metro Bank's stores has been geographically focused in London and the surrounding commuter areas: from Peterborough to Brighton and from Swindon to Canterbury. In 2018, Metro Bank expanded into Bristol, Southampton and Northampton. Metro Bank intends to further expand its footprint into the South West, Wales and the Midlands. Metro Bank targets opening approximately eight stores per year until 2023 (down from a previous target of approximately 20 stores per year from 2020), as well as a further 30 stores (two of which are expected to be opened in 2019) in the North of England, the staffing of which will be funded in part by Metro Bank's grant from the C&I Fund. Metro Bank has committed to the C&I Fund to open these stores by 2025, although it is targeting their opening by the end of 2023.

Store openings are highly publicised, and Metro Bank organises both personal and business events and activities, to attract customers and familiarise them with the Metro Bank brand and "AMAZEING" values. To maintain cultural and operational continuity, when possible, Metro Bank seeks to staff new stores with a core of existing colleagues relocated from other stores.

Metro Bank's new stores typically make a positive contribution to Metro Bank's net income within 18 months of opening. Metro Bank manages the profitability (i.e., positive contribution before allocation of central overheads) for each store individually, with the store management teams accountable for their profit and loss. This approach provides Metro Bank with a number of benefits. For example, it allows a better understanding of the key drivers of profitability in each store and how these develop over time. In addition, Metro Bank is better equipped to assess market share taken by each store and assess the feasibility of additional growth. The approach also allows Metro Bank to draw lessons from experiences in one store and apply them to other stores. On average, newer stores have grown deposits faster than older stores did during the equivalent period from opening. The Directors believe this is due to the network effect, increasing brand recognition as well as organisational learning.

Metro Bank leases all but fifteen of its stores, with typical lease terms at commencement of 25 years. Metro Bank has increased the number of stores in its network from four as of 31 December 2010 to 66 as of the date of this Prospectus. The table below sets out the number of Metro Bank stores as of the dates indicated.

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019*
Number of Metro Bank Stores	48	55	65	66

The table below sets forth Metro Bank's average deposit growth per store per month.

	Year ended 31 December			*Three months ended 31 March*
	2016	*2017*	*2018*	*2019*
		(£ million) (unaudited)		
Average deposit growth per store per month	5.7	6.3	5.9	(2.9)

InterArch, a firm which is owned by Shirley Hill, the wife of Metro Bank's Chairman, Vernon W. Hill, II, provides architecture, design, creative and brand services to the Company. 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 arrangements with InterArch are subject to an annual review by the Audit Committee using benchmarking reviews conducted by independent third parties (including a "big four" professional services firm and the largest independent global marketing audit firm). For the Company's financial year ended 31 December 2018, having reviewed the output from the independent audit of the arrangements, the Audit Committee has concluded that the arrangements 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. Since 2010, InterArch has provided architectural, design and creative services, creating the iconic Metro Bank brand and stores. Metro Bank announced in the 2018 Annual Report and Accounts it would run a process in 2019 to identify an additional alternative supplier of architecture services. This process has begun and the Company intends to transition both architectural design as well as creative and branding services to alternative suppliers. InterArch will work with Metro Bank to ensure a smooth operational transition by the end of 2020.

Digital channels – online and mobile

Metro Bank enables its customers to access its products and services through its digital interfaces. Significantly, in 2018, Metro Bank began offering current account applications online, which the Directors believe will position it well for significant customer growth, given the historical customer and deposit growth rates achieved solely through Metro Bank's in-store applications previously. Also, as part of its £120 million C&I grant, Metro Bank has committed to build out business account applications online.

Metro Bank provides its Retail segment customers with online and application-based banking, which allows customers the ability to open new accounts, make payments and access other account functionality, including "Insights", the new artificial intelligence offering to support customers in managing their finances. For Commercial Banking and Business Banking customers, Metro Bank offers both a standard business internet banking function and an enhanced online business support system for more complex needs through its "Commercial Online" and "Business Online Plus" offerings, which allow Commercial Banking and Business Banking customers to set up advanced payment, transfer and account management functions for an additional fee.

As of 31 March 2019, Metro Bank's online banking and mobile banking sites experience over 1 million and 10 million monthly logins, respectively. Additionally, for the three-month period ended 28 February 2019, over one-third of Metro Bank's current account holders used digital channels and stores. Metro Bank offers free wireless internet connection in all of its stores, thus providing customers with the option to download Metro Bank's mobile application in-store while opening an account. All of Metro Bank's customers benefit from a variety of innovative online and mobile features, such as the ability to customise account names and freeze and unfreeze cards at will, for example after losing debit or credit cards.

Telephony

Metro Bank provides a full-service telephone banking capability with five contact centres located around London, operating 24 hours a day and seven days a week to ensure consistency of performance and functionality. Metro Bank upgraded its telephony platform in 2015 to provide enhanced customer responsiveness and usability. Metro Bank's contact centres use real-time, skill-based routing for customer calls. Metro Bank contact centre colleagues are also able to view photographs of the customer who has called, as well as their entire account status, recent interactions with Metro Bank and account history through Metro Bank's single customer view functionalities.

The breakdown of activity by distribution channel as of 31 March 2019 is set out in the below table.

	Activity by Distribution Channel in 2018
Online	Over 29 million online transactions
On the mobile application	25 log-ins to the mobile application per user per month
In-store	Over 4.5 million Store transactions in 65 stores
Over the phone	Over 1.7 million calls to AMAZE Direct, including 1,550 to 2,000 answered each UK Bank Holiday

Retail segment

Metro Bank's Retail segment includes its Personal Banking and Private Banking business lines. Metro Bank does not target a particular retail customer segment or profile and instead seeks to attract the business of mass market retail customers. Within Personal Banking, Metro Bank seeks to provide a simple, transparent and easy-to-understand product set to its customers, together with excellent customer service. In 2018, Metro Bank opened approximately 89 per cent. of new-to-bank Personal Banking accounts within 30 minutes (and 41 per cent. of current accounts opened online were completed within 12 minutes), including providing full online account access, contactless debit card functionality (and cheque book, if requested), an offering unmatched by UK bank competitors. In addition, existing retail customers are typically able to open additional accounts in five to eight steps (depending on the product) through Metro Bank's website.

In addition to traditional retail products such as current and cash (basic) accounts, credit cards, unsecured personal loans, overdrafts, savings accounts and mortgages, Metro Bank also offers customers safe deposit boxes for annual or monthly fees, illustrating its commitment to providing practical products designed to meet a wide range of retail-customer needs. For Private Banking clients, Metro Bank offers a similar range of simplified banking products, tailored to the needs of individual clients and supported by a bespoke service model and access to a dedicated private banker. Metro Bank is authorised by the PRA and regulated by the FCA and the PRA with permission to undertake, among other things, deposit-taking and mortgage activities.

Personal Banking

Current accounts

As a deposit-driven bank, Metro Bank views retail current accounts as the heart of its product offering, providing Metro Bank with loyal customers and a source of resilient, low-cost and stable funding (relative to wholesale funding). As of 31 March 2019, Metro Bank held £1,265 million in Retail current accounts.

Metro Bank's current accounts are available in GBP for Personal Banking customers, are non-interest bearing and offer free cash withdrawals and card transactions in Europe. In addition, they have access to direct debit, standing order and direct payment features and can be supplemented with overdrafts and cheques. Metro Bank's more basic personal banking account, the cash account (typically for those with limited income or without an extensive credit history), offers customers basic banking day-to-day needs and monthly statements. Metro Bank also offers the "Current Account Switch Service" (using the UK current account switch service system) that helps customers switch their current accounts from their existing bank to Metro Bank within seven days, including by transferring all outgoing payments (e.g., direct debits, standing orders, etc.) and redirecting incoming payments (for a period of 36 months), as well as typically matching overdraft limits from customers' previous current accounts. Customers can open current accounts in store or online.

Savings accounts

Many Personal Banking customers seek outlets for their deposits that will provide a higher rate of return than those provided by current accounts. Metro Bank offers a number of GBP-denominated savings account choices to Personal Banking customers to meet their various needs. While many competitor banks offer higher temporary "teaser" interest rates for new customers, cutting existing customers' variable rates at their expense, Metro Bank offers a "savings promise" on variable products that customers will have access to Metro Bank's "best rate available" to ensure that new customers will not receive a more favourable rate than existing customers. Savings accounts typically provide either fixed or variable interest rates (with variable interest rates changing at the discretion of Metro Bank, but often moving in response to changes in the Bank of England base rate) and are classified as either instant access, from which customers can withdraw their deposits at any time, or term deposits, from which customers can only withdraw deposits without penalty at the end of the term. In addition, Metro Bank offers both instant access and fixed rate ISAs, savings accounts that qualify for favourable tax status in the UK. Customers can open savings accounts in store or online.

Retail mortgages

Metro Bank offers a series of mortgage products to Personal Banking customers. As of 31 March 2019, Metro Bank had total retail mortgage assets of £10.4 billion, and during the year ended 31 December 2018, Metro Bank's net new retail mortgage lending was £3.4 billion. As of 31 March 2019, Metro Bank's retail mortgage assets had an average DTV Ratio of 60 per cent. (31 December 2018, 61 per cent.). As of the same date, the average retail mortgage held by Metro Bank was £240,000. As part of its strategy, Metro Bank intends to increase the proportion of retail mortgages in its lending portfolio from 69 per cent. to 75 per cent. by 2023.

Consistent with its overall customer proposition, Metro Bank places significant emphasis on customer service and transparency throughout its retail mortgage process. For example, while all Metro Bank retail mortgage loans are initially assessed by automated underwriting software, each retail mortgage application also currently undergoes an element of manual (i.e., human) underwriting, with a view to providing its customers with the most suitable loan based on an analysis of their personal circumstances. After a mortgage has been extended, Metro Bank offers flexibility to its customers through its retention process, which allows them to move to a new mortgage three months before the expiry of their initial period. In addition, Metro Bank also enables customers to repay up to 20 per cent. of their mortgage each year without any early repayment charge.

Metro Bank's retail mortgage portfolio, consistent with its customer base, is concentrated in London and the South East of England, with these areas representing 44 per cent. and 23 per cent., respectively, of the portfolio as of 31 March 2019 (31 December 2018, 44 per cent. and 23 per cent.), with the remainder of mortgages distributed across other areas of the UK. However, with the geographic expansion of Metro Bank's store network, and the expansion of Metro Bank's intermediary base across the UK, this geographic distribution has changed, and is expected to continue to change, over time. In addition, Metro Bank purchased a portfolio of primarily buy-to-let mortgages with a weighted average loan to value of 70 per cent. for consideration of £597 million in 2017 and a further portfolio of primarily buy-to-let mortgages with a weighted average loan to value of less than 50 per cent. for consideration of £523 million in 2018. The portfolio acquisitions were undertaken to help meet Metro Bank's target of an LTD Ratio range of 85 to 90 per cent. and on a blended basis have a similar credit profile to the existing organic book. The mortgage portfolios are administered through CHL Mortgages.

Metro Bank's retail mortgage portfolio consists of loans secured on properties by way of a first ranking charge on the property to which the mortgage loan relates on terms which allow for the repossession and sale of the property by Metro Bank if the borrower fails to comply with the terms of the loan. For Personal Banking customers, Metro Bank offers both borrower-occupier mortgage lending (where the borrower is occupier of the mortgaged property), with a maximum LTV Ratio of 90 per cent. and buy-to-let lending (where the borrower purchases with the intention to let the mortgaged property), with a maximum LTV Ratio of 75 per cent. For buy-to-let loans, borrowers must typically demonstrate rental coverage for the property in the amount of 125 per cent. for limited companies or 140 per cent. for professional buy-to-let or 140 per cent. for non-professional buy-to-let of the mortgage payment assuming a stressed interest rate of 5.5 per cent. or 200 bps above the pay rate, whichever is higher.

Metro Bank offers both fixed rate and tracker rate retail mortgage loans. Fixed rate mortgage loans have a set rate for an initial period (typically two or five years), after which the rate reverts to Metro Bank's standard variable interest rate, set at Metro Bank's discretion (assuming the borrower does not refinance the loan). Tracker rate mortgage loans allow customers a variable payment structure that follows movements in market interest rates. Tracker rate mortgages charge a fixed percentage above the Bank of England's base rate (primarily determined by the LTV Ratio of the relevant mortgage) for an initial set period, typically two years, after which, as with Metro Bank's fixed rate mortgages, the rate reverts to Metro Bank's standard variable rate.

Metro Bank offers repayment and interest-only retail mortgages. As at 31 December 2018, 54 per cent. of retail mortgages were repayment and 46 per cent. were interest-only. Customers with repayment mortgages pay off both interest and capital, usually through monthly payments, while customers with interest-only mortgages (which are typically limited to loans with an average LTV Ratio of 75 per cent.) pay off interest only each month. In common with other retail mortgage lenders in the UK, Metro Bank imposes early repayment charges on certain of its retail mortgage products.

In the periods under review, Metro Bank has had low levels of arrears in its mortgage portfolio. As of 31 March 2019, Metro Bank had £13 million in impaired (90 days+ past due) mortgages (31 December 2018, £9 million).

Mortgage distribution

Metro Bank has grown its retail mortgage portfolio partly by establishing relationships with a wide range of specialist mortgage intermediaries. This model is designed to give Metro Bank access to a broader range of customers, who prefer to take independent advice, and provides Metro Bank with a scalable platform for future growth. The Directors believe that Metro Bank's emphasis on transparent pricing, a simple mortgage application policy and fast turnaround times is attractive for brokers and other mortgage intermediaries.

Metro Bank also self-originates retail mortgages. The Directors believe that Metro Bank's ability to self-originate a proportion of its retail mortgage portfolio reflects the success of Metro Bank's efforts to develop close relationships with its customers and to provide them with a level of service and responsive product offerings that encourage them to obtain their mortgages through Metro Bank. As Metro Bank grows its distribution network, the Directors believe it will also grow its direct mortgage fulfilment capabilities.

Unsecured lending

Metro Bank offers a range of unsecured lending products to Personal Banking customers, including unsecured loans, credit cards and overdrafts. Metro Bank intends to develop a new loan application process both online and in-store for both Personal and Business Banking customers, and the Directors believe that Metro Bank's customer relationship-focused lending strategy, supported by its automated underwriting credit assessment processes, can help it to significantly grow its unsecured loan portfolio in the short to medium-term (of approximately 100 per cent. RWAs) with a target that this lending will represent 3 to 7 per cent. of Metro Bank's lending portfolio by 2023.

Because of the increased risk of loss for Metro Bank on unsecured lending compared to mortgage lending (due to the fact that Metro Bank holds no security that can be enforced if a customer defaults on the loan), interest rates on Metro Bank's unsecured lending are typically higher than those on mortgage products.

Credit cards: Metro Bank offers Metro Bank-branded contactless MasterCard credit cards for Personal Banking customers that provide free card transactions in Europe and no annual fee. As of 31 March 2019, Metro Bank had approximately 22,000 open retail credit card accounts, and Metro Bank's retail credit card portfolio had receivables of £11 million (31 December 2018: £11 million).

Unsecured loans: Metro Bank offers personal unsecured loans to Personal Banking customers that may be used for a variety of reasons such as home improvements, vehicle purchases or consolidating existing debt. Metro Bank endeavours to ensure that its personal unsecured loans are easy to arrange and customers in most cases can receive their money on the same day that they request it. Metro Bank offers these loans directly to customers. As of 31 March 2019, Metro Bank's unsecured retail loans portfolio was £201 million (31 December 2018, £207 million).

Overdrafts: Metro Bank offers overdrafts to its Personal Banking customers. Overdrafts occur when a customer pays or withdraws money from their current account in excess of their credit balance. As of 31 March 2019, Metro Bank's retail overdraft receivables were £70 million (31 December 2018, £70 million).

Safe deposit boxes

All of Metro Bank's stores offer safe deposit boxes for a monthly or annual fee, with an average of 2,150 boxes available at each store. Safe deposit boxes are offered in a variety of sizes and price ranges and allow customers to store documents or valuables in a secure environment, with unlimited access available during store opening hours seven days a week, 362 days a year. Metro Bank covers a significant proportion of its store operating costs from safe deposit box income (approximately 80 per cent. of rent of stores open more than 12 months was covered by safe deposit box income in 2018).

Private Banking

Metro Bank's Private Banking business line offers traditional banking and lending to high net worth clients, providing them with the same range of simple banking products, but supported by a bespoke service model and unlimited access to a dedicated private banker. Because Metro Bank does not offer wealth management or investment advice, it is able to partner with a broad range of investment managers, accountants and advisers who view Metro Bank as a complementary, rather than competitive, service provider, and who are, therefore, a significant source of referrals.

Although Metro Bank does not employ formal criteria in accepting Private Banking clients, customers typically have salaries of at least £500,000 or deposits and/or net wealth in excess of £2 million.

Metro Bank provides bespoke lending products to meet the special needs and circumstances of its Private Banking clients. Metro Bank employs sector specialists who provide tailored banking solutions for private clients with significant commercial interests, sports and entertainment figures, entrepreneurs, high net worth families and professionals and senior executives. These sector specialists work to take into account individual factors such as cash flow considerations, professional needs and personal timing constraints to craft individual banking solutions for clients. For example, leveraging Metro Bank's manual underwriting functions, sector specialists are able to analyse and understand the irregular income streams of certain customers, such as sports and entertainment stars, to structure lending solutions responsive to, and appropriate for, their financial situations.

Business and Commercial Banking

Metro Bank's Business and Commercial Banking segment includes its Business Banking and Commercial Banking teams.

Metro Bank's Business Banking customers are varied, but are typically SMEs based around its stores with a typical turnover of up to £2 million. From business current accounts, overdrafts, card payment solutions and cash management services to expansion funding and lending, Metro Bank aims to help its SME customers at all stages of a business' development, providing them with a local business manager with expertise and familiarity with their business. Metro Bank strengthens its relationships with SMEs through valuable business partnership agreements. Metro Bank has successfully established partnerships with business service providers such as Xero, to generate a unique platform of services to support the SME ecosystem. Xero provides Metro Bank's customers with the ability to streamline their accounting and banking processes, reconcile their accounts with one click, manage their business data in one place and create smart reports and professional invoices on the move, through an app. A new partnership with the Forum of Private Business launched in the second quarter of 2018, which gave SME customers access to downloadable guides and templates and a helpline to answer questions about wider business topics such as HR, compliance and health and safety. In addition, Metro Bank has partnered with Acceptcards, the UK's leading independent merchant services broker, to provide customers access to innovative card payment technology. Metro Bank has also launched a new "walk out working" payment acceptance terminal pilot, again extending Metro Bank's SME offering. Metro Bank also partners with local-area professionals, such as lawyers and accountants, in order to build relationships within communities and provide banking services meeting local needs. Networking events are held regularly in store to bring together local communities and discuss relevant business topics.

Metro Bank's Commercial Banking customers are served through Regional Banking teams providing a local relationship service linked to Metro Bank's stores, as well as Large Commercial, Real Estate and Specialist Sectors which operate centrally and regionally. Metro Bank's customers typically fall into one of a number of sectors, including property development & investment, social housing organisations, hotels and leisure companies, primary and secondary healthcare companies, professional firms, financial services, and general trading businesses. Metro Bank offers these customers a wide range of mortgage and commercial lending products, working capital facilities, savings and deposits products, transactional banking solutions and cash management services.

Similar to its retail offering, Metro Bank emphasises customer care in servicing its Business Banking customers' current account and deposit needs. Metro Bank is able to open a current or deposit account for a new-to-bank Business Banking customer within a day in many cases (which the Directors believe is significantly faster than that offered by Metro Bank's main competitors) and allocates a local business manager or relationship team (depending on the size of the customer) dedicated to meeting the account holder's broader business needs.

The Directors believe that because of its own entrepreneurial development and corporate culture, Metro Bank is a particularly attractive banking partner for start-up and technology growth companies that seek a professional and trusted bank with a modern, results-oriented approach to service and speedy account opening. In the year to 31 March 2019, in the London area and South East, Metro Bank won 15 per cent. of all business account switchers according to MarketVue, Business Banking from Savanta.

C&I Grant

On 22 February 2019, Metro Bank was awarded a £120 million grant from the C&I Fund, a UK scheme designed as part of measures agreed between the UK Government and the European Commission to encourage competition in the SME banking market in the wake of the 2008 financial crisis and entered into an agreement with respect thereto with the BCR in April 2019.

The Directors believe that this £120 million award, the largest sum awarded by the BCR in 2019, is a strong external validation of its customer-driven business model. Metro Bank intends to use its C&I Fund funding to increase its SME market share to 8.3 per cent. by 2025, broadening its proposition to SMEs and enabling it to compete more effectively with, and be a stronger challenge constraint to, the current major SME banking providers in the UK. More particularly, the C&I funding will be focused on the following three priority areas:

- *Accelerating national store coverage:* Metro Bank intends to extend its reach by opening 30 stores in the North, beginning in Manchester, Liverpool and Sheffield. As of the date of this Prospectus, Metro Bank had signed leases on open stores in the Manchester Arndale Shopping Centre and on Paradise Street in Liverpool. This growth of the store network will allow Metro Bank to reach an additional c. 15 per cent. of UK SMEs.
- *Launching digital innovations to drive scale:* Metro Bank intends to offer a straight through, end-to-end Digital Business Account Opening process that will allow it to compete for and win SME customers with a preference for digital account applications. This is designed to set Metro Bank apart from its competitors, who currently offer only limited digital services for SMEs, and whose onboarding processes often take days to process and involve human checks. This new application journey for business current accounts will include digital KYC checks, “selfie”-technology and e-signatures, as well as virtual debit card provisioning. Additionally, Metro Bank intends to develop a major new digital ecosystem of services to address critical SME needs, including launching three new propositions as part of a new suite of digital services to connect banking and bookkeeping for SMEs: ‘MFlow’, ‘MPay’, and a mobile cash collection service. ‘MFlow’ will be designed for sole-traders, solo self-employed and micro SMEs and will embed invoicing, receipt management and VAT returns within the Metro Bank mobile app and online banking. These features will also be upgradable through ‘MFlow Connect’ to be compatible for SMEs of all sizes. ‘MPay’ will be a market-first platform that will automate receivables and reconcile payments by providing an integrated range of services, including online, cash and cheque payments that can be included on invoices to improve cash flow and save businesses time on back-office administration. Mobile cash collection will enable customers to use the mobile app to order flexible cash drop-off and collection within the Metro Bank footprint areas to address security risks, cost of lost time and interest and cash handling hassle for SMEs. Finally, Metro Bank intends to launch Business Insights, an artificial intelligence-led account proposition that will build targeted analysis and insights on SME’s cash flow and account use.
- *Building capabilities to serve larger and more complex SMEs:* Metro Bank plans to develop a wider range of products for SMEs to assist with lending, payments and cash management. For lending, Metro Bank will develop a new proposition with enhanced overdrafts, revolving credit facilities, small business loans, credit cards and secured loans, giving SMEs more lending choices. Features of this service will include a ‘MCard+’, a commercial credit card platform to provide funds, spending controls, and insights for SMEs to optimize their cash flow. In addition, Metro Bank intends to deliver through FinTech partnerships a seamless, end-to-end small business lending process online and in-store, taking SMEs from application to acceptance in a matter of minutes and enabling funding to be released same day. For payments and cash management, SME customers will be able to automatically collect payments via Direct Debit, access automated liquidity management tools (such as sweeps and notional pooling) as well as open segregated individual accounts within corporate account structures. Metro Bank intends to also enhance their foreign exchange and trade services to help UK SMEs trade across the global market place.

In order to pay for the foregoing initiatives, the C&I Fund grant will be used to fund the salaries of colleagues for the 30 new stores for approximately 18 months and to finance the new digital offerings to SMEs described above. Metro Bank has committed to a co-investment of £234 million (of which it expects 75 per cent. to be capitalised) which will be used to fund the construction, fit-out and leasing of the new stores, as well as IT and related costs associated with the new digital offerings.

Deposit accounts

Business and Commercial Banking customers offer Metro Bank the opportunity to obtain large-scale deposit funding, and the Directors believe that business and commercial deposit accounts are an underserved segment of the UK banking market, and as a result are a particular area of potential growth for Metro Bank.

Current accounts are available in GBP, Euro and U.S. dollar denominations for business and commercial customers.

Metro Bank offers a broad range of deposit accounts, including fixed term and variable savings accounts, as well as a variety of specialised deposit accounts. For example, Metro Bank offers money market accounts, which require a minimum deposit of £50,000 and provide interest that varies daily (and is paid either daily, weekly, monthly, quarterly, yearly or at maturity) for terms between one month and five years.

For Business and Commercial Banking customers holding significant amounts of client monies, Metro Bank offers "flexible client term deposit accounts", fixed term deposits typically used by customers to hold client monies. These accounts, which require a minimum of £500,000 deposit, do not allow partial withdrawal, and offer fixed interest rates for either six-month, nine-month or one-year terms. For more flexible withdrawal needs for client monies, Metro Bank offers premium deposit accounts, which offer a single master holding account with sub-accounts for each customer client.

The table below sets out a breakdown of Metro Bank's deposits by interest type as of 31 December 2016, 2017, and 2018, and 31 March 2019.

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019*
		(£ million) (unaudited)		
Demand: current accounts	2,282	3,682	4,685	4,532
Demand: savings accounts	3,513	5,303	6,924	6,665
Fixed term: savings accounts	2,156	2,684	4,052	3,898
Total	7,951	11,669	15,661	15,095

Lending

Metro Bank provides a variety of lending options for Business and Commercial Banking customers.

When creating lending solutions for Commercial Banking customers, Metro Bank provides each borrower with a dedicated relationship manager familiar with the customer's business, as well as efficient, manual underwriting of loan applications. Commercial Banking customers have access to Metro Bank's business loans, which can be obtained in amounts greater than £25,000 and are typically repayable in one to 15 years. These business loans, which also can be secured or unsecured, are available with fixed interest rates for periods of up to five years. Metro Bank utilises its customer-focused "Credit Partner Model" for commercial underwriting, as well as to help ensure that, where possible, both an underwriter and relationship manager have met the applicant prior to the granting of a loan. In addition, Metro Bank provides Commercial Banking lending predominantly on a secured basis, and it is the general policy that guarantees are required for commercial loans. Metro Bank also offers overdrafts to Commercial Banking customers, with interest rates set on a customer-by-customer basis.

In addition to the loans typically offered to Commercial Banking and larger Business Banking customers, Metro Bank offers 'small business loans', which are made in amounts from £2,000 to £250,000, have fixed interest rates, can be either secured or unsecured and are typically offered for a term of one to five years.

Metro Bank also offers Metro Bank-branded business MasterCard contactless credit cards for Business Banking customers. These credit cards carry the same interest rates as those offered to retail customers, and similarly offer fee-free card transactions in Europe and no annual fee.

As part of its evolving strategy, Metro Bank plans to rebalance its mixture of lending, which includes scaling back from Commercial real estate lending and increasing the percentage of mortgages together with

Business and Commercial lending to trading businesses with broader service needs in order to optimise capital allocations and returns.

Asset finance and invoice finance

In 2013, Metro Bank acquired SME Invoice Finance and its subsidiaries, which specialises in invoice discounting and factoring and asset finance. Through the acquisition of this company, which has been rebranded as Metro Bank Invoice and Asset Finance, Metro Bank broadened its offering to Business Banking customers with a focus on the manufacturing, wholesale and transport and distribution markets. Since their acquisition, these portfolios have grown from £51 million to £296 million as of 31 March 2019.

Asset Finance: Through Metro Bank Invoice and Asset Finance, Metro Bank offers financing to fund purchases of certain assets such as plant, machinery and vehicles. Asset finance allows a Business and Commercial Banking customer to enjoy the immediate use of purchased assets while spreading the cost of the purchase, helping customers improve their working capital and preserve existing lines of credit.

Metro Bank requires its Business Banking customers to make a down payment, typically 10 per cent. of the purchase price of the asset, and provides financing for the remaining cost over a term of up to five years, depending upon the nature of the asset. Metro Bank offers a mix of hire purchase and finance lease products for both new and used assets, taking security interests in the financed asset. Metro Bank typically seeks an independent expert valuation before determining the amount that it will finance. For Business Banking customers that already own unencumbered plant and machinery, Metro Bank offers borrowings of up to 75 per cent. of the asset's value.

Invoice finance: Through Metro Bank Invoice and Asset Finance, Metro Bank offers Business and Commercial Banking customers the ability to lend against outstanding invoices issued by the borrower to its customer, both through factoring and invoice discounting. Under factoring arrangements, which are typically offered to smaller businesses without a dedicated sales ledger management function, Metro Bank will typically advance up to 85 per cent. of the value of approved invoices, with Metro Bank's credit control team taking responsibility for the collection of the borrower's outstanding invoices. Under invoice discounting arrangements, which are typically offered to larger businesses with an effective accounts management function, Metro Bank will typically advance up to 85 per cent. of the borrower's outstanding sales ledger, and the borrower remains responsible for collecting outstanding debt from its customers.

Asset financing and invoice financing have well-established broker-led markets in the UK, and Metro Bank works with a wide range of intermediaries in this business. In 2018, intermediaries originated 75 per cent. of Metro Bank's business in asset financing, with remaining business coming from its own internal channels.

In 2018, intermediaries originated 24 per cent. of Metro Bank's business in invoice financing, with the remaining business coming from its own internal channels.

Partnership Banking

Through its Partnership Banking, Metro Bank offers specialist banking products for the financial services intermediary market, including portfolio lending, partner loans and specialist retail partnership and platform deposit solutions.

Metro Bank accepts specialist cash deposits from pension providers by providing Self Invested Personal Pensions ("**SIPPs**") and Small Self-Administered Scheme ("**SSAS**") deposit solutions (typically instant access and deposit accounts), participates on a number of savings panels promoted via investment platforms, and offers customer portfolio lending to various wealth managers. The dedicated Partnership administration team at Metro Bank comprises experienced banking administrators with expertise in the administration of cash deposits from retail partnership providers, investment platforms and trusts.

Metro Bank also works closely with a range of partners who specialise in company formation, providing it with early access to offer these newly-established companies with business current accounts.

Information technology

Metro Bank benefits from a relatively new IT infrastructure comprising industry-standard systems that are configured to meet Metro Bank's requirements, providing Metro Bank with a flexible, reliable and secure platform. The Directors believe that this infrastructure is scalable such that it can expand to support future growth with appropriate ongoing investment, and the Directors expect to continue to invest in modern technology.

Metro Bank's IT infrastructure is crucial to Metro Bank's customer proposition, particularly to its ability to open new customer accounts quickly and seamlessly while simultaneously performing necessary background checks on applicants. Metro Bank uses Temenos software for core banking services (T24) and Microsoft for CRM and Marketing (Dynamics), Management Information (PowerBI) and internal communications (Yammer) and Backbase for its digital facing channels. Metro Bank expects to implement an upgrade of T24, the core banking technology product of Temenos launched by Metro Bank in 2010, in order to increase business capability and operational resiliency. Despite being an upgrade, and not the implementation of a new system, to help mitigate risks to the T24 upgrade, Metro Bank has engaged an external provider that supported another major UK bank through its analysis and remediation of issues associated with the transition to a new IT system. See "*Risk Factors – Metro Bank is exposed to operational risks in the event of a failure of its information technology ("IT") systems, and Metro Bank relies on third parties for significant elements of its IT and other middle and back office processes*".

Metro Bank's IT systems are hosted in two state-of-the-art data centres that have sufficient capacity to independently run all systems with zero degradation to service levels in the event of a data centre failure. Architectural design principles have guided the build of a highly-available, stable, secure and performant infrastructure that seamlessly scales in-line with business growth. Wherever possible business critical systems run continuously out of both data centres at the same time (live/live) to achieve the lowest possible recover times.

Metro Bank has carefully invested in key strategic technologies to support business growth. In addition, Metro Bank's scalable SaaS IT model supports this cost-effective growth by allowing it to service additional customer accounts, with only marginal increases in costs. Oracle platforms host critical application databases and enterprise class IBM software enables efficient system integration, as well as Operational Data Store and Data Warehousing capabilities. Metro Bank continues to invest in IT security, customer relationship management, payments, regulatory compliance, risk management and treasury capabilities. In addition, Metro Bank expects to make further investments in its customer-facing digital channels to support the growing use of mobile and tablet devices by consumers at the same time as driving cost efficiency by using offshoring and nearshoring opportunities.

Metro Bank has recently continued its core technology investment by investing in the Apigee API platform. While initially being used to deliver Payment Services Directive (EU) 2015/2366 (PSD2) compliance, this platform can now be leveraged to offer the ability to quickly and seamlessly integrate with Metro Bank's other technology platforms to augment its product and service offerings to Metro Bank customers.

Intellectual property

The Metro Bank trade name, logo and website are key elements of Metro Bank's brand. Metro Bank has acquired the trade mark "Metrobank" and its logo in the UK but does not hold the trade mark for the "Metro Bank" name.

Insurance

The principal risks covered by Metro Bank's insurance policies relate to property damage, business interruption, employers and public liability and certain other claims consistent with customary practice in the banking industry. Metro Bank purchases its insurance through well-known providers and has not had any material insurance claims, nor has it suffered any material loss following any uninsured claim, in the last three years.

Colleagues

As of 31 March 2019, Metro Bank had 3,981 colleagues (31 December 2018, 3,937), approximately 41 per cent. of whom worked in Metro Bank stores and approximately 11 per cent. of whom worked in Metro Bank customer contact centres.

PART III

SUPERVISION AND REGULATION

1. UK Regulatory Bodies

Metro Bank, which is a retail bank operating in the UK, falls under the ambit of UK banking regulators and regulation.

1.1 *The Prudential Regulation Authority, the Financial Conduct Authority and the Financial Policy Committee (the "FPC")*

Under the Financial Services Act 2012 (the "**FSA 2012**"), a range of structural reforms to UK financial regulatory bodies was implemented, with the Financial Services Authority (for the purposes of this Part III, the "**FSA**") being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the FPC.

The PRA, a subsidiary of the Bank of England, has responsibility for micro-prudential regulation of deposit-takers (including banks, building societies and credit unions), insurers and investment firms that have the potential to present significant risks to the stability of the financial system and that have been designated for supervision by the PRA.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions, and it represents the UK's interests in markets regulation at the European Securities and Markets Authority.

Metro Bank is authorised by the PRA and regulated by the FCA and the PRA.

The FPC, which is an independent committee within the Bank of England, is tasked with the primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the UK Government, including its objectives for growth and employment.

For the purposes of this Part III, the terms "**Relevant Regulator**" and "**Relevant Regulators**" refer, as the context requires, to one or more of the PRA, the FCA and/or the FPC.

The PRA's general objective

In discharging its general functions, the PRA's general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to:

- ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

Additionally, the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") has amended the PRA's general safety and soundness objective to incorporate certain matters related to ring-fencing requirements and the bodies subject to them.

When discharging its general functions in a way that advances its objectives, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities.

The FCA's objectives

When discharging its general functions of rule-making, preparing and issuing codes under the Financial Services and Markets Act 2000 (the "**FSMA**"), giving general guidance or determining general policy and principles, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of:

(i) securing an appropriate degree of protection for consumers (the consumer protection objective);

(ii) promoting effective competition in the interests of consumers in financial markets (the competition objective); and

(iii) protecting and enhancing the integrity of the UK financial system (the integrity objective).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers.

1.2 *The UK Government*

The UK Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, the PRA, the FCA and the FPC are accountable to the UK Parliament and, in addition to periodic reporting requirements, there are a variety of circumstances when the PRA, the FCA and the FPC will need to report to HM Treasury (as the representative of the UK Government) about certain events. For example, the PRA must report where events have occurred which had or could have had a significant adverse effect on the safety or soundness of one or more persons authorised by the PRA, and the FCA must report where there has been a significant regulatory failure to secure an appropriate degree of protection for consumers.

1.3 *The Financial Ombudsman Service (the "FOS")*

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money awarded by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012 (£100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

2. UK Regulation

2.1 *Overview of UK financial services regulation*

2.1.1 *Financial Services and Markets Act 2000*

The cornerstone of the regulatory regime in the UK is the FSMA, which received Royal Assent on 14 June 2000 and came into force in 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been heavily influenced by European Union legislation.

The FSMA prohibits any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK, unless that person is authorised or exempt under the FSMA (the "**General Prohibition**"). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance, insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and advising on or managing investments). The FSMA also prohibits the communication of an invitation or inducement to engage in investment activity (a "**financial promotion**") in the UK, unless the financial promotion is issued or approved by an authorised firm or is exempt from such requirements.

The Relevant Regulators are responsible for the authorisation and supervision of institutions that provide regulated activities in the UK. Metro Bank is authorised by the PRA and regulated by the FCA and the PRA with permission to undertake, among other things, deposit-taking and mortgage activities. Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA, which were modified to reflect the new regulatory structure under the FSA 2012. Dual-regulated firms, such as Metro Bank, need to meet both the PRA's threshold conditions and the FCA's threshold conditions. The FCA threshold conditions applicable to PRA-authorised firms are, at a high level, that: (i) the firm is capable of being effectively supervised; (ii) the firm maintains appropriate non-financial resources; (iii) the firm itself is fit and proper, having regard to the FCA's operational objectives and (iv) the firm's strategy for doing business is suitable, having regard to the FCA's operational objectives. At a high level, the PRA threshold conditions require: (a) a firm's head office and, in particular, its mind and management to be in the UK if it is incorporated in the UK; (b) a firm's business to be conducted in a prudent manner and, in particular, that the firm maintains appropriate financial and non-financial resources; (c) the firm itself to be fit and proper, having regard to the PRA's objectives and appropriately staffed; and (d) the firm to be capable of being effectively supervised. Related to this, the PRA must formally approve persons who intend to become "controllers" of Metro Bank (or who intend to increase their control over Metro Bank in a way which results in them falling into a different threshold of control) and must be kept informed of the persons who are controllers of Metro Bank and closely-linked persons of Metro Bank. A controller of Metro Bank is broadly any person who, whether acting alone or "acting in concert" holds 10 per cent. or more of the shares or voting power in Metro Bank or a parent undertaking of Metro Bank or anyone who holds shares or voting power in Metro Bank or a parent undertaking of Metro Bank as a result of which they are able to exercise significant influence over the management of Metro Bank.

In addition, persons holding certain specified functions within Metro Bank (including governance functions) require the prior approval of the PRA or the FCA (depending on the particular function) before they can perform the role. A senior managers regime for individuals who are subject to regulatory approval came into force in March 2016 in the UK. It requires firms to allocate a range of responsibilities to these senior individuals and to regularly assess their fitness and propriety. In addition, a new certification regime was introduced under which relevant firms are required to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers.

The Senior Managers and Certification Regime was recently extended to apply to all insurers regulated by the FCA and the PRA (from December 2018). It will also apply to all solo-regulated firms (those firms regulated by the FCA only) from 9 December 2019. The aim of this is to ensure that the same standards apply in respect of both banking and other financial services.

2.1.2 *Financial services regulatory source materials*

The FSMA (as amended by the FSA 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and guidance made by the FCA under the powers given to it by the FSMA are contained in the "**FCA Handbook**" which is based, to a large degree, on those provisions of the old FSA Handbook relevant for FCA regulated firms amended as necessary. The PRA has moved away from the legacy handbook material it adopted from the FSA and the detailed rules and guidance made by it under the powers given to it by the FSMA (which apply only to PRA authorised firms) are now largely contained in the new "**PRA Rulebook"**, as well as the supervisory statements and statements of policy which the PRA issues from time to time. Many of these PRA and FCA source materials are shaped by European legislation, though certain regulatory aspects of European legislation are also directly applicable and so apply in addition to, and must be read with, the FCA and PRA published materials (in particular refer to the prudential regulatory regime under paragraph 2.2 below).

Once authorised, and in addition to continuing to meet the threshold conditions (the minimum standards for becoming and remaining authorised), firms are obliged to comply with the FCA's Principles and, if a dual-regulated firm, the PRA's Fundamental Rules, which include requirements to: conduct their business with due skill, care and diligence; treat customers fairly; and communicate with customers in a manner that is clear, fair and not misleading. The eleven Principles and eight Fundamental Rules are set out in the FCA Handbook and PRA Rulebook respectively.

Other parts of the FCA Handbooks and PRA Rulebook and other source materials which are of particular relevance to Metro Bank include the Senior Management Arrangements, Systems and Controls sourcebook, the Consumer Credit sourcebook (or "**CONC**"), the Banking Conduct of Business sourcebook, the Mortgages and Home Finance: Conduct of Business sourcebook (or "**MCOB**"), the Supervision sourcebook (or "**SUP**") and the Dispute Resolution: Complaints sourcebook (or "**DISP**") and those materials which deal with prudential capital, liquidity and the leverage ratio requirements (see paragraph 2.2 below).

2.1.3 *Supervision*

Each of the PRA and the FCA has wide powers to supervise and, where necessary, intervene in the affairs of an authorised firm. These powers were extended under the FSA 2012.

The nature and extent of a Relevant Regulator's supervisory relationship with a firm depends on how much of a risk the Relevant Regulator considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that it is prepared so that if it does fail, it does so in an orderly manner. The PRA has introduced the "Proactive Intervention Framework" to support early identification and response to risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected.

The Relevant Regulators will undertake a range of supervisory activities and have a range of statutory powers they can exercise in their work to promote the safety and soundness of authorised firms. For instance, they can require authorised firms to provide particular information or documents to them, require the production of a report by a "skilled person" (as defined in the glossary to the FCA Handbook and PRA Rulebook), appointed by either the authorised firm or the Relevant Regulator, or formally investigate an authorised firm. The PRA, where it will advance any of its objectives, and the FCA, where it will advance one or more of its operational objectives, have a broad power of direction over qualifying unregulated parent undertakings.

2.1.4 *Enforcement*

The Relevant Regulators have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. The sanctions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an individual's approval to perform particular roles within a firm. The Relevant Regulators can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months (in certain cases, six months), or that fails to meet the threshold conditions.

2.1.5 *Challenging the PRA/FCA*

If Metro Bank wanted to challenge enforcement or supervisory decisions of the PRA or FCA made in respect of Metro Bank, then in many cases it could make formal representations and also bring a case to the Upper Tribunal (Tax and Chancery Chamber) (the "**Tribunal**"). The UK regulatory structure introduced under FSA 2012 made a number of amendments to the Tribunal's rules. Although the grounds for making a reference have remained unchanged, the courses of action available to the Tribunal in the event that it disagrees with the PRA or FCA were changed. Under the previous system, the Tribunal had the power to make its own decision in place of one made by a regulator with which it disagreed. That remains the position for a disciplinary reference or a reference in connection with specific third party rights, but the Tribunal no longer has the power to substitute its own decision for that of the regulator in any other case and will instead be required to remit the decision to the Relevant Regulator with a direction to reconsider.

2.2 ***Capital adequacy, prudential regulation and the European regulatory landscape***

Capital adequacy is the concept that a bank should have a certain amount of "regulatory capital" which is correlated to the risks associated with the business carried on by it and which provides a buffer of value that can, if necessary, absorb losses. This is generally calculated as minimum ratio of total capital to RWAs and is expressed as a percentage. Broadly, capital adequacy regulation started with the Basel Accord, published by the Basel Committee on Banking Supervision in 1988. This was then implemented throughout the European Union by a number of EU Directives. Both the Basel Accord and the EU Directives have been amended over time, as noted below, both in response to general market developments and the financial crisis of 2007/2008. The regime which now applies is more complex, onerous and encompasses both capital and liquidity issues, as well as addressing other regulatory matters, such as the leverage ratio, all as summarised below and which together form part of the prudential regulatory framework.

Metro Bank is subject to prudential regulation in the UK, where the prudential regulator for banks is the PRA.

Background

By 2006, the European regulatory capital regime (which was largely implementing the revised Basel Accord known as Basel II) was set out in the recast Banking Consolidation Directive and the Capital Adequacy Directive (together the "**Capital Requirements Directive**" or "**CRD**"). The CRD prescribed minimum standards in key areas of mainly capital regulation and required Member States to give mutual recognition to each other's standards of regulation. CRD also permitted "passporting", which amounts to the freedom of a credit institution authorised in its "home" state (as defined in the CRD) to establish branches in, and to provide cross-border services into, other Member States. Although credit institutions are primarily regulated in their home state by a local prudential regulator, as suggested above, the CRD prescribed minimum criteria for regulation of the authorisation of credit institutions and the prudential supervision applicable to them.

The financial crisis of 2007/2008 highlighted a number of shortcomings in prudential regulation generally and resulted in a series changes to the CRD.

At the same time, the Basel Committee was undertaking a more fundamental and comprehensive review of the prudential capital regime which resulted in the "Basel III" proposals largely finalised in 2011. These proposals included imposing: increased quality and quantity requirements for capital generally; new capital buffer requirements; increased capital requirements for counterparty credit risk for exposures for derivative and certain other transactions; the introduction of a new leverage ratio, as well as a new prudential liquidity regime; and heightened requirements for global systemically important banks. The leverage ratio is, broadly, a ratio of capital against certain unweighted exposures and is a new prudential tool designed to prevent excessive leverage. The new liquidity regime introduced two liquidity ratios which a bank must meet: liquidity coverage ratios ("**LCR**"), which addresses short-term liquidity issues and the NSFR, which requires a bank to have long-term stable funding. The Basel Committee has undertaken further work on certain aspects of the Basel III proposals and, for example, its final rules on NSFR were published on 31 October 2014 and became a minimum standard on 1 January 2018.

Current regulatory regime – some key details

The Basel III proposals were largely adopted (subject to certain detailed differences) in Europe through the CRR, which has direct effect, and the Capital Requirements Directive ("**CRD IV**") which had to be separately implemented by European Member States (together the CRR and CRD IV are also referred to as "**CRD IV**"). CRD IV now reflects the Basel III proposals as adopted and a recast version of the pre-existing CRD based regime to the extent not inconsistent with CRD IV.

The majority of the provisions of CRD IV applied from 1 January 2014, but in some cases were subject to a phased implementation timetable and in some areas implementation is subject to further review, reports, delegated regulations, technical standards and guidance.

However, it is noted that Member States can:

- implement some aspects of CRD IV which are subject to staggered implementation on an accelerated or more onerous timetable;
- in some cases, have separate national rules which supplement the CRD IV regime to the extent not inconsistent with it; and
- avail of some limited discretions in relation to implementation.

The PRA has already used this flexibility in a number of areas relating to capital and liquidity but has generally not availed of all the discretions available to it. For example, it has taken a more onerous approach to the implementation of certain capital requirements (as discussed in PRA Policy Statement PS 7/13) and, with effect from 1 October 2015, implemented a newly revised national liquidity regime to sit alongside the LCR (refer to Policy Statement PS 11/15 and Supervisory Statements SS 24/15 and SS 29/15). In particular, the UK's national liquidity regime requires a bank to have sufficient amounts of good quality liquidity resources to meet its liabilities as they fall due. This may require more liquidity resources to be held than those calculated under the LCR. All of these measures apply to Metro Bank.

Current regulatory regime – additional considerations (additional capital, buffers and stress tests)

The specific detailed technical rules for calculating capital as set out in CRD IV (and any implementing delegated regulations, technical standards and guidance) broadly require capital to be held against risks associated with credit risk, market risk and operational risk arising from a bank's activities. The PRA considers that in some cases the rules do not fully capture the risks involved and other risks not captured by such rules are also relevant when determining capital requirements. Accordingly, (as required under CRD IV) national supervisors (in the UK, the PRA) separately evaluate the activities, and risk profile, of a bank to determine whether it should hold higher levels of capital, such additional capital being referred to as Pillar 2 capital. The PRA has adopted a revised approach to Pillar 2 requirements (refer to PRA Policy Statement PS 17/15, Supervisory Statements SS31/15 and SS32/15 and its Statement of Policy 'The PRA's methodologies for setting Pillar 2 Capital'). Although part of the Pillar 2 capital requirement (Pillar 2A) can be met with a blend of regulatory capital, including Common Equity Tier 1 capital, the subset of Pillar 2 capital known as Pillar 2B (or the PRA buffer), which addresses risks due to the economic environment must be met solely with Common Equity Tier 1 capital.

CRD IV introduced certain new capital buffer requirements (the implementation of which was, in some cases, staggered) which have been implemented by the PRA. Failure to meet the CRD IV buffer requirements can result in restrictions on the ability to make certain specified distributions.

In October 2013, the Bank of England released a discussion paper proposing a new framework for annual, concurrent stress tests of participants in the UK banking system and from 2014 annual stress tests were implemented for the major UK banks and building societies. In October 2015, the Bank of England published its approach to stress testing the UK banking system, setting out the main features of its stress-testing framework. The framework applies to PRA regulated banks and building societies with total retail deposits greater than £50 billion (on an individual or consolidated basis) and so does not currently apply to Metro Bank.

Current regulatory regime – leverage ratio

The PRA took early steps in December 2013 to apply a 3 per cent. leverage ratio as a quantitative test to certain major UK banks and building societies. This test was extended from 1 January 2016 to apply to PRA regulated banks and building societies with individual or consolidated retail deposits equal to or greater than £50 billion. In October 2017 the PRA published Policy Statement 21/17 'UK leverage ratio: treatment of claims on central banks' (also relevant to PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion) which increased the leverage ratio to 3.25 per cent. It does not yet apply to Metro Bank. However, the CRR leverage ratio is has applied as a quantitative test (as of 1 January 2018).

Current regulatory regime – interpretation and change

The interpretation and scope of CRD IV may change over time as, among other things, additional delegated regulations, technical standards and guidance are provided on it by relevant regulatory bodies, including the PRA and the EBA. Therefore, the impact of CRD IV on the calculation of capital and liquidity and other prudential requirements may change over time to reflect such developments, which might also affect the way in which the PRA interprets or applies CRD IV to UK banks. In addition, it is noted that European legislators may implement changes in the future which would affect CRD IV and a number of proposals are being considered by the Basel Committee in this area.

For more information see "*Risk Factors – Regulatory Risks – Metro Bank is subject to prudential regulatory capital and liquidity requirements*".

2.3 ***Recovery and resolution***

Following the financial crisis of 2007/2008, the Banking Act 2009 was introduced in the UK to provide a bespoke framework to facilitate the resolution of banks which, broadly, are failing or are likely to fail to meet their regulatory threshold conditions and which cannot be assisted through normal regulatory action or market-based solutions. The legislation conferred significant new powers on HM Treasury, the Bank of England and, originally, the FSA but now the PRA and FCA to deal with and stabilise banks suffering financial difficulties by placing them into what is referred to as a resolution pursuant to the special resolution regime (the "**SRR**"). It also established two new insolvency procedures for banks.

Work in a similar vein was also ongoing at the European level and resulted in the Bank Resolution and Recovery Directive 2014/59/EU (the "**BRRD**"). The BRRD rules were largely implemented in the UK with effect from January 2015 (except in relation to certain requirements including the contractual recognitions of bail-in which came into force in January 2016). In summary, bail-in relates to the mandatory write-down or conversion of debt liabilities.

The Banking Act 2009 has been amended to reflect the BRRD and, in particular, now offers an extended range of stabilisation options under the SRR (including bail-in generally), as well as providing for the mandatory write-down or conversion of debt capital instruments in certain circumstances.

Institutions subject to BRRD are also required to meet MREL requirements capable of being bailed-in. The MREL requirement is equal to a percentage of total liabilities and own funds to be set by the Bank of England. Items eligible for inclusion in MREL include an institution's own funds (including the Shares) along with other, more senior 'eligible liabilities' in the form of debt instruments.

In October 2017 the Bank of England published a report outlining its approach to resolution of banks, building societies and certain investment firms (updating an October 2014 version). The publication explains the key features of the UK resolution regime, including the Bank of England's statutory responsibilities and powers and how it would be likely to implement a resolution.

For more information, see "*Risk Factors – Regulatory Risks – Metro Bank is subject to rules relating to resolution planning and regulatory action that may be taken in the event of a bank failure*".

2.4 ***Consumer credit regulation***

The FCA is responsible for the oversight and regulation of consumer credit. The framework for consumer credit regulation comprises the FSMA and its secondary legislation (consumer credit activities are, therefore, subject to the General Prohibition and the FSMA authorisation regime discussed earlier in this Part III, retained provisions in the Consumer Credit Act 1974 and rules and guidance in the FCA Handbook, including the CONC (for the purposes of this section, collectively the "**Consumer Credit Regime**").

Under the Consumer Credit Regime, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 has been amended so that consumer credit activities, including entering into a "regulated credit agreement" as lender, are "regulated activities" for the purposes of the FSMA. A "regulated credit agreement" is any "credit agreement" that is not an "exempt agreement". A "credit agreement" is any agreement between an individual or relevant recipient of credit ("**A**") and any other person ("**B**"), under which B provides A with "credit" of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include certain agreements predominantly for the purposes of a business, certain agreements secured on land and agreements relating to the purchase of land where a local authority or other specified type of organisation is the lender. Other regulated consumer credit activities include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner, operating an electronic system in relation to lending and providing credit information services and credit references.

Key features of the Consumer Credit Regime include:

(i) Authorisation: To become authorised, firms must meet the threshold conditions (the minimum standards for becoming and remaining authorised) and obtain pre-approval for individuals who will perform key roles in the applicant firm;

(ii) Supervision: Under the Consumer Credit Regime there is a distinction between higher-risk and lower-risk consumer credit activities and different supervisory approaches for each. There is close supervision of firms engaged in higher risk consumer credit activities and a less intensive supervision regime for lower risk firms. Firms are subject to regular reporting requirements in relation to their consumer credit activities and the FCA engage in thematic work in response to systemic issues;

(iii) Rules: The relevant rules are FCA rules (breaches of which can be penalised), guidance and provisions of the Consumer Credit Act. The FSMA financial promotions regime also applies, and the FCA has also imposed financial promotion rules for high cost short-term credit, cold calling and debt management companies;

(iv) Enforcement: The FCA's enforcement powers include the power to: bring criminal, civil and disciplinary proceedings; withdraw authorisations; suspend authorised firms for 12 months; suspend individuals from performing certain roles for two years; and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market, which can include restrictions on product features and selling practices or product bans; and

(v) Complaints and redress: Consumers have access to the FOS. The FCA also has the power to require authorised firms to reimburse consumers who have suffered loss due to the firm's actions.

2.4.1 *European regulatory landscape*

In April 2008, the European Parliament and the Council of the European Union adopted a second directive on consumer credit (Directive 2008/48/EC) (the "**Consumer Credit Directive**") which provided that, subject to exemptions, loans of between €200 and €75,000 inclusive must be regulated. The Consumer Credit Directive repealed and replaced the first consumer credit directive and required Member States to implement the directive by measures in force by 11 June 2010. Loan agreements secured by land mortgage are exempted from the Consumer Credit Directive.

The European Commission is currently evaluating the effectiveness, efficiency, coherence, relevance and EU added value of the Consumer Credit Directive. The evaluation is expected to conclude in the fourth quarter of 2019.

2.5 ***Mortgage lending***

2.5.1 The FSMA regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or to trustees; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant regulated mortgage contract (and, in the case of financial promotions, certain other credit secured on land) is unenforceable against the borrower without a court order. The MCOB sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under the MCOB rules, an authorised firm (such as Metro Bank) is subject to strict rules on arrears handling and repossessions and is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

In March 2009, the Turner Review, "*A regulatory response to the global banking crisis*", was published and set out a detailed analysis of how the global financial crisis began along with a number of recommendations for future reforms and proposals for consultation. As part of the Turner Review, the FSA published a discussion paper outlining proposals for reform of the mortgage market.

Subsequently, the FSA commenced a wide ranging consultation on mortgage lending: the FSA's Mortgage Market Review ("**MMR**"). The MMR concluded with the publication of final rules by the FSA on 25 October 2012 that amended the existing conduct rules for mortgage lending. The majority of the new rules came into effect on 26 April 2014.

Principal changes are to promote responsible lending and include:

(i) more thorough verification of borrowers' income (no self-certification of income, mandatory third party evidence of income required);

(ii) assessment of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;

(iii) application of interest rate stress tests – lenders must consider likely interest rate movements over a minimum period of five years from the start of the mortgage term;

(iv) when making underwriting assessments lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process;

(v) lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met;

(vi) significant changes to mortgage distribution and advice requirements (including a requirement that advice must be given during most interactive sales); and

(vii) changes in relation to arrears management and requirements on contract variations such as when additional borrowing is requested.

2.5.2 *European regulatory landscape*

The directive on credit agreements relating to residential property, commonly known as the Mortgage Credit Directive ("**MCD**") came into effect on 20 March 2014. The MCD was, to some extent, modelled on the Consumer Credit Directive and requires, among other things, standard pre-contractual information to be provided to the borrower, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and the borrower to have a right to make early repayment. In addition, in August 2015 the EBA published guidelines on mortgage arrears and foreclosure (the majority of which applied from March 2016) and the MCD itself provides for a review after five years.

The MCD entered into force in the UK in March 2016. Changes included amendment of the definition of "regulated mortgage contract" to include second charge lending, bringing the regulation of second charge mortgage lending into line with first charge lending (rather than it being regulated under the FCA's Consumer Credit Regime), and the establishment of a framework for regulating buy-to-let mortgage lending to consumers.

2.6 ***Payment Services Regulation***

Under the Payment Services Regulations 2017 (the "**PSR**"), the FCA is responsible for regulating payment services in the UK. The PSR establish an authorisation regime, requiring payment service providers (other than authorised credit institutions such as Metro Bank) to either be authorised or registered with the FCA. The PSR also contain certain rules about providing payment services that payment service providers must comply with, including in relation to consent for payment transactions, unauthorised or incorrectly executed transactions, liability for unauthorised payment transactions, refunds, execution of payment transactions, execution time, information to be provided to payment service users and liability of payment services providers if things go wrong. In comparison with the previous Payment Services Regulations 2007, the PSR include a requirement to grant (in certain circumstances) certain regulated third parties with access to customer accounts and information and introduce stronger customer authentication requirements and enhanced consumer protection obligations.

The Banking Reform Act required the FCA to establish a body corporate to regulate payment systems (the "**Payment Systems Regulator**"). The Payment Systems Regulator was established on 1 April 2014 and became fully operational in April 2015.

The general functions of the Payment Systems Regulator are:

(i) giving general directions;

(ii) giving general guidance; and

(iii) determining the general policy and principles by reference to which it performs particular functions.

In discharging its general functions, the Payment Systems Regulator must, so far as is reasonably possible, act in a way which advances one or more of its payment systems objectives. The Payment Systems Regulator's payment systems objectives are:

(i) to promote effective competition in the market for payment systems and the markets for services provided by payment systems;

(ii) to promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, services provided by payment systems, with a view to improving the quality, efficiency and economy of payment systems; and

(iii) to ensure payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by payment systems.

2.6.1 *European regulatory landscape*

The UK payment services regulatory regime originates from European Union law. Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market (the "**Payment Services Directive**") was required to be transposed by Member States before 1 November 2009.

In January 2016, a revised payment services directive ("**PSD II**") came into force. The aim of the directive is to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. A regulation on multilateral interchange fees also came into force on 9 December 2015. Taken together, these new pieces of legislation are designed to (i) extend the scope of the Payment Services Directive as regards geographical scope, currencies covered and payment services regulated, (ii) limit the scope of available exemptions under the Payment Services Directive, (iii) increase consumer rights and payment security and (iv) reduce interchange fees for card payments and prohibit surcharging. The deadline for Member States to transpose PSD II into national law was January 2018. PSD II is implemented in the UK by the PSR and parts of the FCA Handbook.

The European Parliament and Council have sought to create an integrated market for electronic payments in euro, with no distinction between national and cross-border payments. This single euro payments area ("**SEPA**") project aims to develop common European Union-wide payment services to replace current national payment services. PSD II provides a modern legal foundation for the creation of an internal market for payments and regulations of the European Parliament and Council have been adopted with a view to furthering this aim.

Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (the "**SEPA Regulation**") lays down rules for credit transfer and direct debit transactions denominated in euro within the European Union. The implementation of the SEPA Regulation was staggered. The general date by which credit transfers and direct debits were to be carried out in accordance with the SEPA Regulation was 1 February 2014. However, an amendment to the SEPA Regulation introduced a transitional period of six months to 1 August 2014 to reflect the fact that it was unlikely that all market participants would be in compliance with the SEPA Regulation by 1 February 2014. Credit transfers and direct debit transactions denominated in euro in countries outside the euro area were required to be carried out in accordance with the SEPA Regulation from 31 October 2016.

In relation to payment accounts, on 28 August 2014, the text of Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**") was published in the Official Journal of the European Union. The Payment Accounts Directive is intended to enable consumers to make informed choices when opening a payment account by improving the transparency and comparability of information on account fees, while eliminating discrimination based on residency, and to enable consumers to switch accounts more easily. The UK implemented the Payment Accounts Directive by means of the Payment Accounts Regulations 2015 (the "**PAR**"). In line with the Payment Accounts Directive, the provisions of the PAR on packaged accounts, switching and basic bank accounts took effect in the UK in September 2016. The provisions on transparency and comparability of fee information came into force on 31 October 2018.

2.7 ***UK ring-fencing regime***

On 14 June 2012, HM Treasury issued a White Paper entitled "*Banking reform: delivering stability and supporting a sustainable economy*", on how the UK Government intends to implement the measures recommended by Sir John Vickers' Independent Commission on Banking's final report of 12 September 2011. Broadly, the White Paper covers the following areas: the ring-fencing of vital banking services from international and investment banking services; measures on loss absorbency and depositor preference; and proposals for enhancing competition in the banking sector.

On 19 June 2013, the Parliamentary Commission on Banking Standards published its final report, entitled "*Changing banking for good*". This was followed by the publication of the UK Government's response on 8 July 2013, accepting the overall conclusions of the report and its principal recommendations.

The UK Government published the Banking Reform Bill in October 2012 but, following the Parliamentary Commission on Banking Standards' final report published in June 2013, amendments to the Banking Reform Bill were tabled. The Banking Reform Bill received Royal Assent as the Financial Services (Banking Reform) Act 2013 on 18 December 2013. Two statutory instruments – the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 and the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 – were enacted in July 2014 pursuant to HM Treasury's powers under the Banking Reform Act, and HM Treasury also exercised those powers to enact the Financial Services and Markets Act 2000 (Banking Reform) (Pensions) Regulations 2015 in March 2015.

This legislation, taken as a whole, mandates the 'ring-fencing' of certain core activities and services relating to the regulated activity of accepting deposits by a UK institution. Entities that meet the threshold for the UK ring-fencing regime (£25 billion of deposits, excluding deposits from financial institutions and certain corporates and high net worth individuals that "opt out") are required to separate the core activity of accepting deposits, together with the core services associated with that activity, into a separate ring-fenced body (an "**RFB**"). The legislation also prohibits an RFB from undertaking certain excluded activities, namely dealing in investments as principal and dealing in commodities. RFBs are also subject to certain prohibitions, which include prohibitions on incurring exposures to certain types of financial institutions, and on having branches or subsidiaries in non-EEA Member States. The excluded activities and prohibitions are subject in each case to limited exceptions.

In addition to the primary and secondary ring-fencing legislation, the PRA published Policy Statement PS20/16 in July 2016 setting out ring-fencing rules that govern the relationship between the RFB and the rest of its group, including entities that carry out excluded activities and activities that the RFB is prohibited from undertaking (such entities being non-ring-fenced bodies, or "**NRFBs**"). These ring-fencing rules address areas such as the legal structure of the RFB sub-group, governance arrangements for RFBs, prudential requirements and requirements for intra-group transactions and distributions. The rules came into effect on 1 January 2019.

In March 2016 the PRA and the FCA issued guidance on the use of ring-fencing transfer schemes under Part VII of the FSMA, which are a form of statutory transfer mechanism to enable banking groups to reorganise their businesses so as to comply with the ring-fencing regime. Also in March 2016 the FCA published Policy Statement PS16/9 on the disclosures required to be made by NRFBs to individuals that opt to place deposits with such entities.

Banks that fall within the scope of this legislation were expected to have implemented all relevant reforms by 1 January 2019 at the latest (other than in respect of pension arrangements, for which the deadline for implementing changes was 1 January 2026). While Metro Bank is not currently subject to the ring-fencing requirements, on the basis that it does not hold the minimum threshold of deposits to be required to ring-fence its business, the implementation of ring-fencing may affect its ability to transact with RFBs within banking groups that are subject to those requirements.

Looking forward, if Metro Bank increases the size of its deposit book over time, it may reach the threshold for deposits at which it is required to implement ring-fencing and separate its business on the basis described above. Effecting a reorganisation or introducing new policies and procedure to comply with the ring-fencing requirements is likely to give rise to implementation costs and may have other implications for Metro Bank's business model, as it will become subject to restrictions on its activities and to the other prohibitions outlined above.

2.8 *FSCS and the EU Deposit Guarantee Scheme Directive*

2.8.1 *FSCS*

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. There are different compensation limits for different categories of claim. For example, the limits are: (i) for claims against firms that failed on or after 30 January 2017, for deposits, 100 per cent. of the first £85,000; (ii) for claims against firms that failed on or after 1 January 2010, for mortgage advice and arranging, 100 per cent. of the first £50,000; and (iii) for claims against firms that failed on or after 3 July 2015, for insurance, 100 per cent. of cover for all long-term policies, for professional indemnity insurance and claims arising from death or incapacity. The FSCS pays compensation for financial loss and the actual compensation a customer will receive depends on the basis of their claim. Compensation limits are per person, per firm and per type of claim.

2.8.2 *EU DGSD*

In Europe, the EU DGSD required EU Member States to introduce at least one deposit guarantee scheme by 1 July 1995. Directive 2009/14/EC, amending Directive 94/19/EC, requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at €100,000.

The recast EU DGSD was published in the Official Journal of the EU on 12 June 2014 and Member States had until 3 July 2015 to transpose the majority of the EU DGSD into national law. The changes included restricting the definition of "deposit", excluding deposits made by certain financial institutions and certain public authorities, reducing time limits for payments of verified claims by depositors and provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD sought to harmonise eligibility for protection (including an extension of scope to protect deposits of most companies, whatever their size) and allows for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property.

2.9 ***Competition regulation***

Metro Bank is subject to supervision and oversight by a number of competition regulators, including the CMA, sectoral regulators and the European Commission. The FCA and the Payment Systems Regulator have concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. These regulatory bodies have broad powers to launch market studies or conduct investigations.

Following the CMA's market investigation into retail banking which concluded in 2016, there have been several recent competition related developments in the retail banking space, including the roll-out of Open Banking, new disclosure requirements for current account providers and new rules for banks requiring them to provide early warnings about approaching overdraft limits.

In September 2018 the CMA announced that it was investigating a super-complaint from Citizens Advice about long-term customers overpaying for key services, including mortgages and savings. The CMA has also commissioned research into personalised pricing in online shopping.

In 2018 the FCA published discussion papers on price discrimination in the cash saving market (DP18/6) and on fair pricing in financial services (DP18/9). DP18/9 focuses on firms charging different prices to different consumers based purely on consumers' price sensitivity (which the FCA call "price discrimination") and on firms charging existing customers more than new customers (which the FCA calls "loyalty pricing" or "inertia pricing"). The paper explores several possible remedies, including restrictions on product design (such as removal of auto-renewal mechanisms) or restrictions on price (such as price caps or collars). The FCA is expected to publish a consultation paper in early 2019 following its discussion paper on price discrimination in the cash savings market and will publish a feedback statement during 2019 on the discussion paper on fair pricing in financial services.

While the outcome of ongoing studies and proposals, and the scope of any future studies and proposals, is inherently uncertain, they may ultimately result in the application of behavioural and/or structural changes and remedies by the regulators.

2.10 ***Other relevant legislation and regulation***

The UK Money Laundering Regulations 2017 place a requirement on Metro Bank to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud. In addition, the Proceeds of Crime Act 2002, Terrorism Act 2000, Counter-Terrorism Act 2008, Terrorist Asset-Freezing etc. Act 2010, Wire Transfer Regulation (EU Regulation 1781/2006) and Transfer of Funds (Information on the Payer) Regulations 2017 collectively contain requirements and offences in relation to money laundering and the financing of terrorism that are applicable to Metro Bank. Guidance in respect of Metro Bank's anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group, which is made up of certain UK trade associations in the financial services industry.

The Bribery Act 2010 contains offences relating to bribing another person, being bribed and bribing foreign public officials. It also contains an offence for commercial organisations of failing to prevent bribery. The Ministry of Justice has published guidance about procedures which commercial organisations can put into place to help prevent against persons associated with them engaging in such activity.

The UK Data Protection Act 1998 regulates the processing of data relating to individual customers.

The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after 1 July 1995 and prior to 1 October 2015. Contracts entered into on or after 1 October 2015 are governed by the Consumer Rights Act 2015. The main effect of these pieces of legislation is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services.

For the financial services regulatory risks relating to Metro Bank's business, please see "*Risk Factors – Regulatory Risks*".

PART IV

OPERATING AND FINANCIAL REVIEW

The following discussion summarises the significant factors and events affecting the results of operations and the financial condition of Metro Bank as of and for the years ended 31 December 2016, 2017 and 2018, and as of and for the three months ended 31 March 2018 and 2019, and should be read in conjunction with Part II: "Information about Metro Bank" and Part V: "Historical Financial Information" and the information relating to the business included elsewhere in this Prospectus. Selected financial information in this section has been derived from Part V: "Historical Financial Information", in each case without material adjustment, unless otherwise stated. Investors should read the whole of this Prospectus and not just rely upon summarised information.

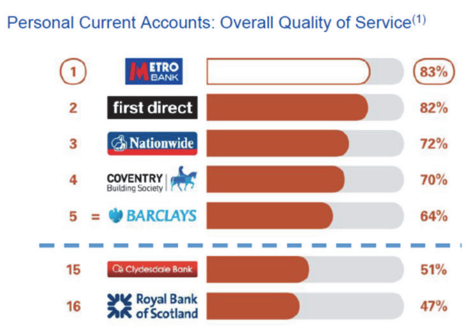
The following discussion of Metro Bank's results of operations and financial condition contains forward-looking statements that reflect the current view of the Directors and involve risks and uncertainties. See "*Risk Factors*" and Part II: "*Information about Metro Bank– Information regarding forward-looking statements*" for a discussion of important factors that could cause Metro Bank's actual results to differ materially from the forward-looking statements contained herein.

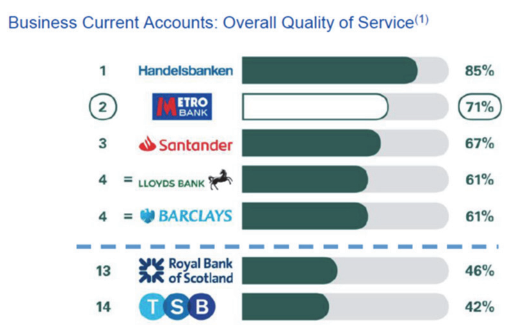
Overview

Metro Bank was founded by Vernon W. Hill, II in 2010 as the first full-service, independent, new High Street bank to open in the UK in more than 100 years. Metro Bank uses a disruptive, deposit-driven funding model and a superior retail and business-focused customer service experience that emphasises simple banking to turn its customers into "**FANS**" (customers who recommend someone to bank with Metro Bank).

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 66 stores (not "branches") in the key conurbations across the South of England and into the Midlands, with 1.7 million customer accounts, £15,095 million in deposits from customers and £15,201 million of gross loans and advances to customers as of 31 March 2019. Driven by and reflective of its customer service-led model and culture, Metro Bank's "stores" are open seven days a week, early until late with 24/7 telephony, award-winning digital and mobile banking, all integrated to provide an outstanding customer experience.

Metro Bank's success in delivering an outstanding customer experience is best evidenced by the results of the Competition and Markets Authority ("**CMA**") Service Quality surveys published in February 2019. As set forth in the charts below, Metro Bank's customers rated it number one out of 16 banks and building societies for quality of service for personal current accounts and number two for business current accounts, with 83 per cent. and 71 per cent. of customers "extremely likely" or "very likely" to recommend Metro Bank's personal and business services, respectively.





(2) Source: CMA Service Quality Surveys published February 2019

Metro Bank's integrated customer experience model is underpinned by its "AMAZE(ING)" values:

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

In order to develop and embed this culture, Metro Bank seeks first to hire "colleagues" (not "staff") with the right attitude and train them with the appropriate skills to AMAZE its customers. These colleagues attend Metro Bank University throughout their careers to learn and develop the skills necessary to provide a customer service experience that matches or exceeds that of best-in-class specialist retailers. Metro Bank University has also created 'colleges' with curriculums to develop colleagues across the organisation so that as Metro Bank grows, where practicable it "grows its own" into senior or specialist positions within the Company.

Metro Bank's superior customer experience is supported by a scalable, innovative and flexible end-to-end technology infrastructure that equips Metro Bank's colleagues to focus on creating an "AMAZEING" customer experience. For example, the speed at which Metro Bank opens accounts both in store and digitally is believed to be industry-leading by the Directors: following a robust "Know Your Customer" process (which includes anti-money laundering, anti-fraud and, where appropriate, credit checks), Metro Bank was able to open approximately 89 per cent. of accounts for new-to-bank customers in its retail segment (the "**Retail segment**") within 30 minutes in 2018. Additionally, Metro Bank launched an industry leading current account online opening process in January 2018, which allows customers to digitally open an account using "selfie" identification and verification ("**ID&V**") online within 10 minutes. Metro Bank's emphasis on delivery at the point-of-sale means that these new-to-bank customers leave a Metro Bank store with a fully functioning current account (including access to telephony, internet and mobile banking, with customers assisted in downloading the Metro Bank mobile application in store at the time of application) and an activated contactless debit card printed in store, for which they set their own pin number, thus requiring no repeat store visits or mailings to complete their account opening process. Furthermore, customers have 24/7 access to UK-based contact centres staffed by Metro Bank colleagues that utilise real-time, skill-based routing for customer calls.

Metro Bank has also continued to invest in its "back office" infrastructure, enhancing operational performance and resilience, including by seeking to implement straight through processing and "Single Customer View" functionalities, as well as a customer photograph and real-time history of previous interactions across all channels. In addition, Metro Bank has leading cybersecurity controls, including web application firewalls to protect its external websites, malware detection tools to protect data, and a 24/7 managed security service to monitor its IT infrastructure. These tools and services help improve customer experience, protect customers' data and money, as well as drive cost efficiency, which is a key area of focus for Metro Bank.

Metro Bank is primarily funded by deposits from its Business and Retail customers, drawings from the Bank of England's TFS scheme, repurchase agreements, capital provided by shareholders, and the 2018 Tier 2 qualifying bond. As of 31 March 2019, Metro Bank had total assets and liabilities of £22,194 million and £20,788 million, respectively. As of 31 December 2018, Metro Bank had total assets and liabilities of £21,647 million and £20,244 million, respectively (31 December 2017, £16,355 million and £15,258 million; 31 December 2016, £10,057 million and £9,253 million).

Segmentation

For the purposes of its financial reporting, Metro Bank does not segment its business. References elsewhere in this Prospectus to Metro Bank's Business and Retail segments refer to conventions that Metro Bank uses operationally to describe its major product lines and are not reflected or discussed in this Part IV or in Part V: "*Historical Financial Information*" of this Prospectus.

Key Factors Affecting Results of Operations

Set forth below are certain key factors which have historically affected Metro Bank's balance sheet growth and results of operations, and which may affect its balance sheet growth and results of operations in the future.

Deposit base and funding

Metro Bank is primarily funded by deposits from its Business and Retail customers and capital provided by shareholders and does not borrow money from the wholesale funding markets, except for the Bank of England TFS and repurchase agreements, including repos historically used to enable Metro Bank to utilise the FLS and to manage short-term liquidity. Metro Bank has expanded rapidly since its launch in July 2010, from four stores and approximately 9,000 customer accounts as of 31 December 2010 to 66 stores and approximately 1.7 million customer accounts as of 31 March 2019. As a result, Metro Bank's deposits from customers increased from £7,951 million as of 31 December 2016 to £15,095 million as of 31 March 2019.

The following tables set out Metro Bank's deposits by category as of 31 December 2016, 2017 and 2018, and as of 31 March 2019:

		As of 31 December		*As of 31 March*
	2016	*2017*	*2018*	*2019*
		(£ million)		
		(unaudited)		
Business	4,006	6,193	8,232	7,862
Retail (excluding Retail partnerships)	2,943	3,910	5,190	5,308
Retail partnerships	1,002	1,566	2,239	1,925
Total deposits	7,951	11,669	15,661	15,095

		As of 31 December		*As of 31 March*
	2016	*2017*	*2018*	*2019*
		(£ million)		
		(unaudited)		

		As of 31 December		*As of 31 March*
	2016	*2017*	*2018*	*2019*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
		(£ million)		
Demand – Current Accounts	2,282	3,682	4,685	4,532
Demand – Savings Accounts	3,513	5,303	6,924	6,665
Fixed term	2,156	2,684	4,052	3,898
Total deposits	7,951	11,669	15,661	15,095

During the periods under review, Metro Bank's overall deposits were driven by the expansion of its store network from 40 stores as of 1 January 2016 to 66 stores as of 31 March 2019, the increase of both its Business customer base and Retail customer base and the increasing use by its customers of its online channel.

The growth of Metro Bank's Business customer deposit base was primarily driven by its ability to integrate online with physical service delivery and to develop specialised business lines, including those of the Cash & Liquidity team, which specialises in providing payment and cash management solutions to larger business customers, and the provision of client monies holding accounts for solicitors and other professional services organisations. These specialised business lines are also important to Metro Bank's Partnership Banking business line, which contributed significantly to the increase in deposits from Business customers.

The table below sets forth Metro Bank's Business segment deposits by interest type as of 31 December 2016, 2017 and 2018, and as of 31 March 2019.

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019*
		(£ million) (unaudited)		
Demand: current accounts	1,574	2,668	3,445	3,266
Demand: savings accounts	1,243	2,083	2,789	2,909
Fixed term: savings accounts	1,189	1,442	1,998	1,687
Total	4,006	6,193	8,232	7,862

Although its total deposits grew significantly during the periods under review, following the announcements by Metro Bank in the first quarter of 2019 of its change in outlook due to the more challenging conditions in the wider economic, commercial and regulatory environment in which it operates, its strategic evolution towards SME customers, and its having adjusted the risk-weighting of certain commercial loans that had the combined effect of increasing its RWAs by £900 million as of 31 December 2018 (see "*Risk-weighted assets*" below), Metro Bank experienced deposit outflows in the first quarter of 2019, principally within its commercial banking and retail partnership categories, due to adverse sentiment following Metro Bank's January trading update. This resulted in Metro Bank's total deposits falling by £566 million, from £15,661 million as of 31 December 2018 to £15,095 million as of 31 March 2019. Total deposits stabilised in March 2019 and returned to net growth in April 2019.

Going forward, Metro Bank will seek to reduce the proportion of its higher-cost term deposits by growing its lower cost current accounts and variable rate accounts, and targeting overall deposit growth of approximately 20 per cent. per year and average deposit growth per store, per month, of approximately £4.0 million in the medium-term. In addition, in light of the prevailing economic conditions and outlook in the UK, Metro Bank expects to temper the expansion of its store network, targeting the addition of approximately eight stores per year until 2023, as well as a further 30 stores (two of which are expected to be opened in 2019) in the North of England, the staffing of which will be funded in part by Metro Bank's grant from the C&I Fund. Metro Bank has committed to the C&I Fund to open these stores by 2025, although it is targeting their opening by the end of 2023. This approach is intended to allow existing stores to mature, which is expected to result in higher proportional contributions to profitability.

Loan portfolio growth

Metro Bank's loans and advances to customers comprise Business loans and advances to customers (including business loans, commercial mortgages, SME lending and business credit cards and overdrafts) and Retail loans and advances to customers, which comprise retail mortgages (residential and buy-to-let) and consumer and other loans (including unsecured personal loans, MMA loans, retail credit cards and retail overdrafts).

The table below sets forth a breakdown of Metro Bank's gross loans and advances to customers by segment as of 31 December 2016, 2017 and 2018, and as of 31 March 2019.

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019 (unaudited)*
		(£ million)		
Business	2,087	3,187	4,356	4,470
Retail	3,785	6,448	9,913	10,731
of which:				
Retail mortgages (residential and buy-to-let)	3,604	6,231	9,625	10,449
Consumer and other	181	217	288	282
Total gross loans and advances to customers	5,872	9,635	14,269	15,201

Retail mortgages and Business loans, which are secured on property or other tangible assets, accounted for 69 per cent. and 26 per cent., respectively, of Metro Bank's loan book as of 31 March 2019. In the periods under review, gross loans and advances to customers increased by 159 per cent., from £5,872 million as of 31 December 2016 to £15,201 million as of 31 March 2019, primarily due to growth in residential mortgages. However, while gross loans and advances to customers increased in the first quarter of 2019, they did so at a slightly slower rate than has historically been the case. In light of the factors discussed above under "Deposit base and funding", this trend has continued and Metro Bank expects its lending growth to slow, at least in the short-term, until deposit growth resumes and its LTD Ratio tracks back toward Metro Bank's medium-term target, as discussed below.

In addition, as part of its strategic evolution, Metro Bank intends to rebalance its lending mix toward mortgages, SME and unsecured lending to optimise capital allocation and returns. More specifically, it will seek to increase the proportion of residential mortgages in its lending portfolio to approximately 70 per cent. to 75 per cent. by 2023. It will also aim to decrease the proportion of commercial real estate, while increasing its lending to trading businesses, leading to Business lending being approximately 20 per cent. to 25 per cent. by 2023. Metro Bank may also consider portfolio or asset sales in the future, which could affect, among other things, the size and shape of its loan book.

Metro Bank had a LTD Ratio of 74 per cent., 82 per cent., 91 per cent. and 100 per cent. as of 31 December 2016, 2017 and 2018 and 31 March 2019, respectively. The increase in the LTD Ratio in the first quarter of 2019 primarily reflected the increase in loans and advances to customers during the quarter and the lower deposit base at the end of the period due to the factors described above under "Deposit base and funding". The increase in loans and advances to customers reflected the extension of loans and advances that had been approved in the last quarter of 2018, as well as continued loan approvals and issuances during the first quarter of 2019. Metro Bank is targeting an LTD Ratio of 85 per cent. to 90 per cent. in the medium-term.

Underlying cost-to-income ratio

As an expanding bank, Metro Bank's operating costs have increased during the periods under review, from £208 million in 2016 to £267 million and £355 million in 2017 and 2018, respectively. The underlying cost-to-income ratio decreased to 86 per cent. in 2018 from 90 per cent. in 2017, reflecting income growth of 38 per cent. outpacing cost growth of 33 per cent. during the period, and Metro Bank intends to increase its cost efficiency substantially further and, by 2023, is targeting an underlying cost-to-income ratio of 55 per cent. to 60 per cent. In order to achieve this, Metro Bank has identified specific initiatives across five areas, comprising its front and back office functions, its stores, its head office, and its digital and IT infrastructure, to help scale growth more efficiently. In 2019, Metro Bank expects its underlying cost-to-income ratio to be between 85 per cent. to 90 per cent. with approximately 1 per cent. and 3 per cent. of this being driven by MREL and IFRS 16 interest expense, respectively, and it aims to make improvements to lean workflows across each of the five areas targeted, as well as to optimise costs in its front office to reflect the shift in composition of its lending portfolio, and in its head office to support IT functions. Additionally, in the short-term, Metro Bank plans to implement a new process to enhance its customer scheduling procedures in stores, and to lower costs across its digital and IT workstreams by using nearshoring. In the medium-term, it will seek to implement integrated automation processes across head and back office functions, as well as develop shared services locations for its back office. In addition, from 2020 onwards, Metro Bank intends to introduce efficiencies that will streamline tasks, making banking more convenient for "FANS" and more efficient for colleagues. For example, Metro Bank plans to offer a greater choice of banking channels to its customers through new digital servicing journeys. Metro Bank also plans to review its store design to add more assisted and self-service offerings and integrated digital authentication.

Net interest income

Net interest income is the largest component of Metro Bank's operating income, accounting for 79 per cent., 82 per cent., 82 per cent., 82 per cent. and 78 per cent. of operating income in 2016, 2017 and 2018 and in the three months ended 31 March 2018 and 2019, respectively. Metro Bank's net interest income is affected by a number of factors, including, in particular, the size of its loan and investment portfolios, the level of customer deposits, product mix and the interest rates that Metro Bank pays on its sources of funding and the interest that it earns on its loans and investments. Net interest income also reflects the accounting for leases under IFRS 16, with effect from 1 January 2019, and interest payable on the £250 million qualifying tier 2 subordinated debt issued by Metro Bank in June 2018 (the "**Tier 2 debt**").

Metro Bank is a deposit led bank, and its deposit base has grown significantly, from £7,951 million as of 31 December 2016 to £15,095 million as of 31 March 2019. This growth was driven by its store expansion, from 40 stores as of 1 January 2016 to 66 stores as of 31 March 2019 and online platforms. At the same time, Metro Bank has maintained a low cost of deposits, which were on average below the Bank of England base rate for most of 2018. Going forward, Metro Bank targets deposit growth of approximately 20 per cent. per year.

Metro Bank's interest-bearing liabilities consist principally of savings deposits from customers (it typically does not pay interest on current accounts). Metro Bank's interest-earning assets consist principally of residential mortgages, business lending and consumer and other lending (consisting primarily of unsecured current account overdrafts, credit card receivables and personal loans, including those originating from third party platforms), as well as investment securities. These assets have grown significantly in the periods under review, as Metro Bank's store network and customer base have grown and its customers have increased their demand for its credit products. As of 31 March 2019, retail mortgages, business lending and unsecured consumer lending represented 69 per cent., 29 per cent. and 2 per cent., respectively, of Metro Bank's loan and advances to customers. Going forward, Metro Bank intends to increase the proportion of its loans and advances to customers attributable to unsecured consumer lending to approximately 3 to 7 per cent. by 2023.

For its lending, Metro Bank typically earns the highest average rate of interest on its consumer and business unsecured loans due to the higher credit risk associated with these products, while residential mortgages typically earn the lowest average rate of interest, which reflects the lower risk profile of the product, as well as the generally competitive nature of the marketplace. The effect of the Bank of England FLS and TFS having provided substantial amounts of liquidity to the UK mortgage market has had an impact, as has ring-fencing within Metro Bank's larger competitors. Metro Bank is actively seeking to increase its consumer and other lending portfolio, and the Directors believe that Metro Bank's customer relationship-focused lending strategy, supported by its conservative underwriting credit processes, will support the growth of this portfolio in the medium-term while appropriately managing its credit risk. In particular, to reduce the risk profile and improve the capital efficiency of Metro Bank's loan book, Metro Bank intends to increase the proportion of lower-risk, higher RoE (primarily residential) mortgages (of approximately 35 per cent. RWAs) in its lending portfolio to a range of 70 per cent. to 75 per cent. by 2023, while decreasing commercial real estate and focussing on lending to trading businesses and increasing higher-yielding consumer lending from 2 per cent. to 3 per cent. to 7 per cent. The change in mix in Metro Bank's loan book is expected to have a positive impact on its RoE in the medium-term.

Metro Bank's net interest income is also affected by changes in interest rates, as most of Metro Bank's interest-bearing assets and liabilities are variable rate, with reference to the Bank of England's base rate, which, during the periods under review, has remained at low rates between 0.25 and 0.75 per cent. See "*Risk Factors – Risks relating to the Macroeconomic Environment in which Metro Bank operates – Metro Bank faces risks associated with interest rate levels and volatility*". In 2018, Metro Bank's average cost of deposits was 0.61 per cent., compared to 0.54 per cent. and 0.79 per cent. in 2017 and 2016, respectively, and the average interest yield on its loans was 3.03 per cent. in 2018, compared to 3.22 per cent. and 3.58 per cent. in 2017 and 2016, respectively. In the three months ended 31 March 2018 and 2019, Metro Bank's average cost of deposits was 0.56 per cent. and 0.70 per cent., and average interest yield on its loans was 3.10 per cent. and 2.96 per cent., respectively.

Retail mortgages

As of 31 December 2016, 2017, 2018, and 31 March 2018 and 2019, Metro Bank's retail mortgage (residential and buy-to-let) portfolio was £3,604 million, £6,231 million, £9,625 million, £7,310 million and £10,449 million, respectively. During the periods under review, Metro Bank's residential mortgage portfolio has grown through organic Metro-originated distribution and the acquisition of seasoned mortgage portfolios in March 2018 and June 2018. Metro Bank has employed, and intends to continue in the future to target, a combination of a store-based mortgage origination model with an intermediary-led mortgage lending model. In 2018 and in the three months ended 31 March 2019, Metro Bank derived approximately 86 per cent. and 87 per cent. of its residential mortgages from intermediaries, respectively.

Since the global financial crisis in 2008, access to residential mortgage credit in the UK generally had been more restricted than before the crisis, particularly at higher loan-to-value ratios, due to a number of factors, including (i) a significant reduction in the number of available mortgage products, (ii) a more cautious approach to valuations of properties by surveyors (which in turn reduces the value of the mortgage that can be obtained on a given property), (iii) stricter underwriting standards by lenders that have resulted in more stringent mortgage application requirements for borrowers, including increased down payments, (iv) the introduction, under the FCA's 2014 Mortgage Market Review, of mandatory interest rate "stress testing" by lenders when assessing mortgage affordability by borrowers, (v) a desire by certain lenders to limit their lending exposure in relation to specific types of housing developments, and (vi) the exit of a number of mortgage providers from the UK market. However, the dampening effect of these factors has been muted by the increase in capital and liquidity arising from the implementation by the largest UK banks of ring-fencing regimes during 2018 in preparation for new legislation that came into effect on 1 January 2019. This has also increased the competitive nature of the residential mortgage market in the U.K. and reduced the NIM associated with these products.

As of 31 March 2019, the Bank of England base rate was 0.75 per cent., representing an increase from a base rate of 0.5 per cent. in August 2018. Metro Bank's residential mortgage loan portfolio is affected by changes in interest rates, particularly as the higher rate 'back book' is replaced by lower rate, 'front book' lending. However, the extent to which Metro Bank will be able to pass through to its customers future base rate increases will depend in part on the competitive nature of the residential mortgage market at that time and the ability of the larger, High Street banks to maintain lower rates in order to retain and/or grow their market share at the expense of banks, including challenger banks, with smaller balance sheets.

Metro Bank's residential mortgage portfolio, like its customer base, has historically been concentrated in London and the surrounding commuter areas from Peterborough to Brighton and from Swindon to Canterbury. As Metro Bank further expanded its footprint into the South West and the Midlands (having opened stores in Bristol, Southampton and Northampton in 2018), Metro Bank's residential mortgage portfolio has diversified as well. In addition, Metro Bank's recently announced expansion into the North of England through the deployment of its C&I funding, which will support the opening of 30 new stores in the region by 2025, is expected to bring further geographic diversity to the portfolio.

Metro Bank's residential mortgage portfolio is also affected by changes in the UK Government's policies relating to the purchase and resale of residential property, including through property purchase assistance schemes and changes in tax laws which have in the past removed certain types of tax relief for mortgage interest and imposed higher rates of stamp tax for second home purchases and certain buy-to-let property investments.

Business lending

Metro Bank's Business lending product offering, which primarily consists of term loans relating to secured fixed and variable rate business loans, asset and invoice financing, and partner loans, represents an important driver of Metro Bank's lending growth during the periods under review, as well as its lending strategy going forward. Business lending increased from £2,087 million as of 31 December 2016 to £4,470 million as of 31 March 2019. This has been driven by an increased recognition by potential customers and introducers of Metro Bank as a brand in the commercial lending market and an expansion in our direct distribution capability to serve that market.

To complement the benefits realised from its expanding store network, Metro Bank has invested significant resources to develop specialist teams and relationship managers to increase its Business lending business. Three central teams, a Large Business team, a Real Estate team and a Specialist Sectors team (focusing on a number of priority sectors such as healthcare, hospitality and leisure), are complemented by regional Business teams that focus on meeting the needs of local businesses. However, as Metro Bank has grown its business lending, it has also experienced a degree of pricing pressure from larger, High Street banks, which it expects will continue. As part of its strategic evolution, Metro Bank intends to decrease the proportion of its loan portfolio, particularly commercial real estate, that is comprised of commercial loans to approximately 20 per cent. to 25 per cent. by 2023 (from 29 per cent. as of 31 March 2019).

Risk-weighted assets

In the periods under review, Metro Bank has experienced a significant increase in RWAs. As of 31 December 2016, 2017 and 2018 and 31 March 2019, Metro Bank had RWAs of £3,590 million, £5,882 million, £8,936 million and £9,613 million, respectively. The significant increase reflects growth in Metro Bank's loan portfolio, as well as a £900 million adjustment in 2018 in the risk-weighting of (i) certain commercial loans secured on property as a secondary source of repayment (which represented approximately two-thirds of the £900 million adjustment) and (ii) certain professional buy-to-let loans (which represented approximately one-third of the £900 million adjustment). In addition, as of 1 January 2019, Metro Bank implemented IFRS 16 "Leases", which requires lessees to recognise assets and liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a result of these accounting changes, Metro Bank's RWAs have increased by approximately £313 million.

Investment securities

As of 31 December 2016, 2017 and 2018 and 31 March 2019, Metro Bank had investment securities of £3,227 million, £3,915 million, £4,132 million and £3,339 million, respectively. As of 31 March 2019, these investment securities were all investment-grade and comprised of the following exposures: £407 million of government bonds, £552 million of covered bonds, and £2,380 million of RMBS.

All of Metro Bank's investment securities are used to manage liquidity. While Metro Bank has historically invested surplus deposits in investment securities as a source of additional income with lower capital requirements (low risk-weights), margins on these securities are typically less than that of lending and therefore tend to suppress the overall NIM of Metro Bank.

Credit risk management, loan losses and impairment losses

Customers defaulting on their loan repayment obligations can adversely impact Metro Bank's financial results. Metro Bank seeks to mitigate its retail credit risk exposure and improve its capital efficiency through the use of collateral and guarantee arrangements. In the case of its Retail mortgages, Metro Bank stratifies its credit exposures by debt-to-value ratios ("**DTV Ratio**", defined as the ratio of gross outstanding amount to indexed value of collateral). As of 31 March 2019, Metro Bank's DTV Ratio exposures across its mortgage and commercial loan portfolios (i.e., excluding unsecured retail loans) were as follows: less than 50 per cent., £4,280 million; 51 per cent. to 60 per cent., £2,835 million; 61 per cent. to 70 per cent., £2,758 million; 71 per cent. to 80 per cent., £2,435 million; 81 per cent. to 90 per cent., £1,457 million; 91 per cent. to 100 per cent., £119 million; and more than 100 per cent., £502 million.

Metro Bank monitors its corporate credit risk concentration by industry sector, and it reassesses its exposure limits by sector at least annually. In 2018, Metro Bank's largest industry credit exposure was real estate.

The Directors believe that Metro Bank's conservative credit risk management policies have allowed it to effectively manage its credit risk while growing the size of its loan portfolio, with 96 per cent. of Metro Bank's loans consisting of retail mortgages and commercial term loans secured on collateral with average debt-to-value of 60 per cent. and 59 per cent., respectively, as of 31 March 2019. Consequently, as of 31 December 2016, 2017 and 2018 and 31 March 2019, Metro Bank's credit impairment charge/expected credit losses was £4.7 million, £8.2 million, £8.0 million and £2.2 million, respectively, while its cost of risk (calculated as the ratio of impairment provisions to gross loans) was 0.10 per cent., 0.11 per cent., 0.07 per cent. and 0.06 per cent. (quarterly) for the periods to the same dates, respectively. The decline in cost of risk from 2017 to 2018 was driven by a strong lending portfolio consisting of 67 per cent. residential mortgages and 27 per cent. well-secured commercial term loans.

Nevertheless, Metro Bank's loan portfolio is relatively less seasoned compared to its major banking competitors. As a result, the Directors expect that Metro Bank's allowance for impairment is likely to increase as the maturity profile of its loan portfolio increases.

Fee and commission income

Metro Bank earns fee and commission income through a range of business and retail banking services. Going forward, Metro Bank intends to expand fee income through provision of new value-added services. This will focus initially on offering products to SMEs that, for example, support cash management activities, and offering digitally originated services such as cloud accounting. There is also an opportunity to develop paid-for services for Retail customers, such as insurance, which Metro Bank will explore alongside a refresh of its current account proposition.

In addition, safe deposit box fees alone make a significant contribution to the cost of the rent of Metro Bank's stores. In 2016, 2017 and 2018 and the three months ended 31 March 2018 and 2019, Metro Bank earned £22.2 million, £29.7 million, £37.6 million, £8.4 million and £15.7 million in fee and commission income, respectively, of which £7.0 million, £9.1 million, £11.1 million, £2.6 million and £3.1 million, respectively, was attributable to the rental of safe deposit boxes by its customers. Although Metro Bank charges lower fees on its products than many of its competitors, fee and commission income has grown consistently in the periods under review. Metro Bank expects its safe deposit boxes to continue to be a significant driver of fee and commission income growth, together with increases in other fee-generating products that will result from further store expansion, customer growth, particularly in trading businesses, and the broadening and maturing of its service offerings.

Taxation

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. 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 an element of management judgement in assessing its recognition and measurement. Metro Bank recognised a deferred tax asset (net) in respect of tax losses carried forward and taxable temporary timing differences of £56 million, £54 million, £41 million and £39 million as of 31 December 2016, 2017 and 2018, and as of 31 March 2019, respectively.

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

Implementation of IFRS 16 and IFRS 9

As of 1 January 2018, Metro Bank implemented IFRS 9 "Financial Instruments". IFRS 9 led to a one-off increase in impairment allowances for certain financial assets in Metro Bank's balance sheet at the time of adoption, such as an increase for the provision for loan losses from £14 million as at 31 December 2017 to £37 million at 1 January 2018. However, the European Commission has implemented transitional arrangements to mitigate the full impact of IFRS 9 on expected credit losses on regulatory capital over a five-year transition period, commencing 1 January 2018. IFRS 9 could, however, lead to a negative impact on Metro Bank's regulatory capital as the transition period expires. In addition, as of 1 January 2019, Metro Bank implemented IFRS 16 "Leases", which requires lessees to recognise assets and liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a result of these accounting changes, Metro Bank expects to add RWAs in the amount of approximately £313 million.

Macroeconomic and market conditions

Since Metro Bank's establishment in 2010, the UK economy has experienced a significant degree of volatility, largely as a result of the consequences of the global financial crisis that began in 2008. Generally, periods of economic volatility historically have resulted in a decrease in new borrowing as individuals and corporate entities choose to save earnings, rather than spend or invest, and an increase in arrears, impairment provisions and defaults. Thus, in a future downturn, Metro Bank's NIM could be adversely affected by a decrease in the number of attractive loan opportunities.

While economic indicators in the UK have improved since the peak of the financial crisis, the 2016 Brexit referendum and the 2017 General Election and political instability that has followed have had a significant impact on the UK economy. The drop in the pound, lowered consumer confidence indices, an income squeeze and a threat to the UK's credit rating could all adversely affect Metro Bank's operations and performance.

Financial Position

Liabilities

Deposits from customers

Metro Bank's deposits from customers as of 31 December 2017 were £11,669 million, an increase of £3,718 million, or 47 per cent., compared to £7,951 million as of 31 December 2016. The increase in Metro Bank's deposits from customers over this period was primarily driven by growth of customer accounts, particularly with business customers, including SMEs.

Metro Bank's deposits from customers as of 31 December 2018 were £15,661 million, an increase of £3,992 million, or 34 per cent., compared to £11,669 million as of 31 December 2017. The increase in Metro Bank's deposits from customers over this period was primarily driven by growth of customer accounts, particularly with business customers, including SMEs.

Metro Bank's deposits from customers as of 31 March 2019 were £15,095 million, a decrease of £566 million, or 4 per cent., compared to £15,661 million as of 31 December 2018. The decrease in Metro Bank's deposits from customers over this period was primarily due to adverse sentiment following Metro Bank's January trading update. This resulted in a small number of commercial and partnership customers withdrawing deposits in January and February which caused Metro Bank's total deposits to fall. Total deposits stabilised in March 2019 and returned to net growth in April 2019.

Repurchase agreements and other liabilities

The following table sets out a breakdown of Metro Bank's other liabilities as of 31 December 2016, 2017 and 2018, and as of 31 March 2019:

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019 (unaudited)*
	(£ million)			
Trade creditors	2	–	5	1
Other taxation and social security costs	7	5	6	11
Repurchase agreements	653	121	344	1,126
Accruals and deferred income	71	83	115	86
Other liabilities	26	59	63	419
	759	268	533	1,643

Repo funding as of 31 March 2019 was £1,126 million, which was a £782 million, or 227 per cent. increase from the repo funding balance as of 31 December 2018. The increase was primarily a result of holding higher levels of liquidity. Metro Bank regularly tests its ability to utilise repo funding, consistent with liquidity regulation.

Assets

The following table sets out Metro Bank's total assets as of 31 December 2016, 2017 and 2018 and as of 31 March 2019:

	As of 31 December			*As of 31 March*
	2016	*2017*	*2018*	*2019 (unaudited)*
		(£ million)		
Assets				
Cash and balances at central banks	435	2,112	2,286	2,370
Loans and advances to banks	65	100	186	211
Loans and advances to customers	5,865	9,620	14,235	15,167
Investment securities	3,227	3,915	4,132	3,339
Property, plant and equipment	247	328	454	752
Intangible assets	93	148	197	209
Prepayments and accrued income	43	52	66	63
Deferred tax asset	56	54	41	39
Other assets	26	26	50	44
Total assets	10,057	16,355	21,647	22,194

Total assets as of 31 December 2017 were £16,355 million, an increase of £6,298 million, or 63 per cent., compared to £10,057 million as of 31 December 2016. The increase in total assets over this period was primarily due to an increase in loans and advances to customers.

Total assets as of 31 December 2018 were £21,647 million, an increase of £5,292 million, or 32 per cent., compared to £16,355 million as of 31 December 2017. The increase in total assets over this period was primarily due to an increase in loans and advances to customers.

Total assets as of 31 March 2019 were £22,194 million, an increase of £547 million, or 3 per cent., compared to £21,647 million as of 31 December 2018. The increase in total assets over this period was primarily due to an increase in loans and advances to customers.

Loans and advances to banks

Metro Bank's loans and advances to banks (i.e., operational balances) as of 31 December 2017 were £100 million, an increase of £35 million, or 54 per cent., compared to £65 million as of 31 December 2016. Loans and advances to banks primarily reflected operational cash balances that the bank holds with its Nostro (i.e., other bank) account providers to ensure all customer payments are processed on time. The increase in Metro Bank's loans and advances to banks over this period was primarily driven by deposit growth.

Metro Bank's loans and advances to banks (i.e., operational balances) as of 31 December 2018 were £186 million, an increase of £86 million, or 86 per cent., compared to £100 million as of 31 December 2017. The increase in Metro Bank's loans and advances to banks over this period was primarily driven by deposit growth.

Metro Bank's loans and advances to banks as of 31 March 2019 were £211 million, £25 million higher compared to £186 million as of 31 December 2018. The increase in Metro Bank's loans and advances to banks over this period was primarily due to higher balances being held to be deployed for Metro Bank's lending.

Loans and advances to customers

Metro Bank's loans and advances to customers as of 31 December 2017 were £9,620 million, an increase of £3,755 million, or 64 per cent., compared to £5,865 million as of 31 December 2016. The increase in Metro Bank's loans and advances to customers over this period was primarily driven by growth in Metro Bank's residential mortgage portfolio.

Metro Bank's loans and advances to customers as of 31 December 2018 were £14,235 million, an increase of £4,615 million, or 48 per cent., compared to £9,620 million as of 31 December 2017. The increase in Metro Bank's loans and advances to customers over this period was primarily driven by growth in Metro Bank's residential mortgage portfolio.

Metro Bank's loans and advances to customers as of 31 March 2019 were £15,167 million, an increase of £932 million, or 7 per cent., compared to £14,235 million as of 31 December 2018. The increase in loans and advances to customers over this period was primarily due to growth in Metro Bank's retail mortgage portfolio.

Investment securities

As of 31 December 2016, 2017 and 2018 and 31 March 2019, Metro Bank had investment securities of £3,227 million, £3,915 million, £4,132 million and £3,339 million, respectively. As at 31 March 2019, these investment securities were all investment-grade and comprised of the following exposures: £407 million of government bonds, £552 million of covered bonds, and £2,380 million of RMBS.

All of Metro Bank's investment securities are used to manage liquidity. While Metro Bank has historically invested surplus deposits in investment securities as a source of additional income with lower capital requirements (low risk-weights), margins on these securities are typically less than that of lending and therefore tend to suppress the overall NIM of Metro Bank.

Explanation of Certain Income Statement Line Items

Interest income

Interest income primarily comprises income earned on loans and advances to customers, as well as income earned on investment securities, principally gilts and residential mortgage-backed securities and bonds issued by corporates and financial institutions.

Interest expense

Interest expense comprises interest payable on customer deposit accounts, Tier 2 debt, TFS, repurchase agreements as well as the interest expense recognised on lease liabilities following the introduction of IFRS 16.

Fee and commission income

Fee and commission incomes includes fees from a wide range of banking services charged to customers, including those for safe deposit boxes. Loan fee income, which forms an integral part of the effective interest rate of a financial instrument, is recognised as an adjustment to the effective interest rate and recorded in interest income.

Net gains on sale of assets

Net gains on sale of assets comprise gains less losses from the sale of investment securities and other assets.

Other income

Other income primarily comprises gains on foreign currency transactions (the spread earned on foreign currency transactions performed for our customers along with any associated fees), and rental income earned from the letting out of surplus space in some of Metro Bank's properties.

Credit impairment charges/expected credit losses

Credit impairment charges/expected credit losses ("**ECL**") comprise, respectively, the impairment provisions against individual assets and portfolios of assets under IAS 39, and the present value of amounts expected to be lost on individual assets and portfolios of assets under IFRS 9, with ECL under IFRS 9 assessed on a forward-looking basis, and lifetime ECL recognised where the risk of default has increased significantly.

Operating expenses

Operating expenses primarily include people costs, property costs, including rent and rates, legal and professional and other services, IT, money transmission costs and office costs.

Depreciation and amortisation

Depreciation and amortisation includes the depreciation of fixtures, fittings and equipment and computer hardware and the amortisation of intangible assets, including computer software and development costs.

Taxation

Taxation comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years.

Current trading and update

The table below sets out Metro Bank's financial targets in the medium-term.

	Target
Deposits growth per year (%)	approximately 20
Stores growth per year (from 2020) (1)	approximately eight (in addition to C&I funded store growth)
Deposit growth per store per month	>£4.0 million
Loan-to-deposit ratio (%)	85 to 90
Underlying cost-to-income ratio (%)	55 to 60 by 2023
Return of equity	Low double digits by 2023
Cost of Risk (%)	15 bps to 30 bps through the cycle
CET1 ratio (%)	>12
Leverage ratio (%)	>4

Note:

(1) Metro Bank expects to open two additional stores in 2019.

Results of Operations for the three months ended 31 March 2019 and 31 March 2018

The following table sets out Metro Bank's results of operations for the three months ended 31 March 2019 and 31 March 2018:

	Three months ended 31 March	
	2018	*2019*
	(unaudited)	
	(£ million)	
Interest income	96.5	127.6
Interest expense	(21.5)	(43.8)
Net interest income	75.0	83.8
Fee and commission income	8.4	15.7
Net gains on sale of assets	2.7	1.3
Other income	5.7	6.7
	91.8	107.5
Operating expenses	(70.4)	(83.1)
Depreciation and amortisation	(10.0)	(17.9)
Impairment of property, plant & equipment and intangible assets	(0.5)	–
Expected credit loss	(2.3)	(2.2)
Profit before tax	8.6	4.3
Taxation	(2.2)	(1.8)
Profit for the quarter	6.4	2.5

Interest income

Metro Bank's interest income for the three months ended 31 March 2019 increased by £31.1 million, or 32 per cent., from £96.5 million for the three months ended 31 March 2018 to £127.6 million for the three months ended 31 March 2019. The increase in interest income was primarily due to an increase in loans and advances to customers.

Interest expense

Metro Bank's interest expense for the three months ended 31 March 2019 increased by £22.3 million, or 104 per cent., from £21.5 million for the three months ended 31 March 2018 to £43.8 million for the three months ended 31 March 2019. The increase in interest expense was primarily due to growth of customer deposits (compared to the corresponding period in 2018), interest expense on Metro Bank's Tier 2 debt and the adoption of IFRS 16 on 1 January 2019.

Net interest income

Metro Bank's net interest income for the three months ended 31 March 2019 increased by £8.8 million, or 12 per cent., from £75.0 million for the three months ended 31 March 2018 to £83.8 million for the three months ended 31 March 2019. The increase in net interest income was primarily due to an increase in loans and advances to customers and an increased LTD Ratio.

Fee and commission income

Metro Bank's fee and commission income for the three months ended 31 March 2019 increased by £7.3 million, or 87 per cent., from £8.4 million for the three months ended 31 March 2018 to £15.7 million for the three months ended 31 March 2019. The increase in fee and commission income was primarily due to an increase in the number of customer accounts, deepening of relationships with existing customers and an increase in safe deposit box income following the opening of new stores.

Net gains on sale of assets

Metro Bank's net gains on sale of assets for the three months ended 31 March 2019 decreased by £1.4 million, or 52 per cent., from £2.7 million for the three months ended 31 March 2018 to £1.3 million for the three months ended 31 March 2019. The decrease in net gains on sale of assets was primarily driven by Treasury asset sales. The sales in 2019 have been to fund Metro Bank's lending growth.

Other income

Metro Bank's other income for the three months ended 31 March 2019 increased by £1.0 million, or 18 per cent., from £5.7 million for the three months ended 31 March 2018 to £6.7 million for the three months ended 31 March 2019. The increase in other income was primarily due to gains on foreign currency transactions (the spread earned on foreign currency transactions performed for our customers along with any associated fees).

Depreciation and amortisation

Metro Bank's depreciation and amortisation for the three months ended 31 March 2019 increased by £7.9 million, or 79 per cent., from £10.0 million for the three months ended 31 March 2018 to £17.9 million for the three months ended 31 March 2019. The increase in depreciation and amortisation was primarily due to investment in stores and technology, the impact of IFRS 16 on leasehold accounting, and increased investment in response to regulatory change.

Operating expenses

Metro Bank's operating expenses for the three months ended 31 March 2019 increased by £12.7 million, or 18 per cent., from £70.4 million for the three months ended 31 March 2018 to £83.1 million for the three months ended 31 March 2019. The increase in operating expenses was primarily due to expansion of the store network and investment in IT and digital capabilities, in part in response to increased regulatory requirements.

Expected credit loss

Metro Bank's expected credit loss for the three months ended 31 March 2019 decreased by £0.1 million, or 4 per cent., from £2.3 million for the three months ended 31 March 2018 to £2.2 million for the three months ended 31 March 2019. The decrease in expected credit loss was despite the growth in the loan portfolio over this period.

Taxation

Metro Bank's forecast annual effective tax rate ("**ETR**") and that used for the three months ended 31 March 2019 was 49.3 per cent. and for the three months ended 31 March 2018 was 25.7 per cent. The increase in the ETR was primarily due to the revaluation of deferred tax assets (net) as a result of the change in outlook over the next 12 months arising from the more challenging conditions in the wider economic, commercial and regulatory environment in which the bank operates.

Results of Operations for 2016, 2017 and 2018

The following table sets out Metro Bank's results of operations for 2016, 2017 and 2018:

	Year ended 31 December		
	2016	*2017*	*2018*
		(£ million)	
Interest income	213.5	302.0	444.4
Interest expense	(59.3)	(61.0)	(114.3)
Net interest income	154.2	241.0	330.1
Fee and commission income	22.2	29.7	37.6
Net gains on sale of assets	5.4	3.7	10.7
Other income	13.3	19.4	25.7
	195.1	293.8	404.1
Operating expenses	(184.9)	(232.9)	(305.6)
Depreciation and amortisation	(22.4)	(33.4)	(45.1)
Impairment of property, plant & equipment and intangible assets	(0.3)	(0.6)	(4.8)
Credit impairment charges/expected credit loss	(4.7)	(8.2)	(8.0)
Profit/(Loss) before tax	(17.2)	18.7	40.6
Taxation	0.4	(7.9)	(13.5)
Profit/(Loss) for the year	(16.8)	10.8	27.1

Interest income

The following table sets out a breakdown of Metro Bank's interest income for 2016, 2017 and 2018:

		Interest income	
	2016	*2017*	*2018*
		(£'m)	
Investment securities	46.5	60.2	79.2
Loans and advances to customers	167.0	241.8	365.2
Total interest income	213.5	302.0	444.4

Metro Bank's interest income in 2017 increased by £88.5 million, or 41 per cent., from £213.5 million in 2016 to £302.0 million in 2017. The increase in interest income was primarily due to increase in balances of loans and advances to customers. The average interest yield on its loans was 3.22 per cent. in 2017, compared to 3.58 per cent. in 2016.

Metro Bank's interest income in 2018 increased by £142.4 million, or 47 per cent., from £302.0 million in 2017 to £444.4 million in 2018. The increase in interest income was primarily due to increase in balances of loans and advances to customers. The average interest yield on its loans was 3.03 per cent. in 2018, compared to 3.22 per cent. in 2017.

Interest expense

Metro Bank's interest expense in 2017 increased by £1.7 million, or 3 per cent., from £59.3 million in 2016 to £61.0 million in 2017. The increase in interest expense was primarily due to by growth of customer deposits. The average rate on deposits was 0.54 per cent. in 2017, compared to 0.79 per cent. in 2016.

Metro Bank's interest expense in 2018 increased by £53.3 million, or 87 per cent., from £61.0 million in 2017 to £114.3 million in 2018. The increase was primarily due to growth of customer deposits and interest expense on Metro Bank's Tier 2 debt.

Net interest income

Metro Bank's net interest income in 2017 increased by £86.8 million, or 56 per cent., from £154.2 million in 2016 to £241.0 million in 2017. The increase in net interest income was primarily due to an increase in loans and advances to customers and an increased LTD Ratio.

Metro Bank's net interest income in 2018 increased by £89.1 million, or 37.0 per cent., from £241.0 million in 2017 to £330.1 million in 2018. The increase in net interest income was primarily due to an increase in loans and advances to customers and an increased LTD Ratio.

Fee and commission income

Metro Bank's fee and commission income in 2017 increased by £7.5 million, or 34 per cent., from £22.2 million in 2016 to £29.7 million in 2017. The increase in fee and commission income was primarily due to an increase in customer numbers leading to an increase in transaction volumes and higher fee income from the sales of safe deposit boxes.

Metro Bank's fee and commission income in 2018 increased by £7.9 million, or 27 per cent., from £29.7 million in 2017 to £37.6 million in 2018. The increase in fee and commission income was primarily due to an increase in customer numbers leading to an increase in transaction volumes and higher fee income from the sales of safe deposit boxes.

Net gains on sale of assets

Metro Bank's net gains on sale of assets in 2017 decreased by £1.7 million, or 31 per cent., from £5.4 million in 2016 to £3.7 million in 2017.

Metro Bank's net gains on sale of assets in 2018 increased by £7.0 million, or 189 per cent., from £3.7 million in 2017, to £10.7 million in 2018. The increase in net gains on sale of assets was primarily due to the reduction in Metro Bank's exposure to assets not permitted within a ring-fenced bank as it prepares for coming into scope of the regulation (expected January 2023).

Other income

Metro Bank's other income in 2017 increased by £6.1 million, or 46 per cent., from £13.3 million in 2016 to £19.4 million in 2017. The increase in other income was primarily due to gains on foreign currency transactions (the spread earned on foreign currency transactions performed for our customers along with any associated fees).

Metro Bank's other income in 2018 increased by £6.3 million, or 32 per cent., from £19.4 million in 2017 to £25.7 million in 2018. The increase in other income was primarily due to gains on foreign currency transactions.

Depreciation and amortisation

Metro Bank's depreciation and amortisation in 2017 increased by £11.0 million, or 49 per cent., from £22.4 million in 2016 to £33.4 million in 2017. The increase in depreciation and amortisation was primarily due to increased investment in stores and technology.

Metro Bank's depreciation and amortisation in 2018 increased by £11.7 million, or 35 per cent., from £33.4 million in 2017 to £45.1 million in 2018. The increase in depreciation and amortisation was primarily due to continued investment in stores and technology, and increased investment in response to regulatory change.

Operating expenses

Metro Bank's operating expenses in 2017 increased by £48 million, or 26 per cent., from £184.9 million in 2016 to £232.9 million in 2017. The increase in operating expenses was primarily due to expansion of the store network and investment in IT, digital capabilities and business development.

Metro Bank's operating expenses in 2018 increased by £72.7 million, or 31 per cent., from £232.9 million in 2017 to £305.6 million in 2018. The increase in operating expenses was primarily due to continued expansion of the store network and investment in IT and digital capabilities, in part in response to increased regulatory requirements.

Credit impairment charges/expected credit loss

Metro Bank's credit impairment charges in 2017, assessed under IAS 39, increased by £3.5 million, or 75 per cent., from £4.7 million in 2016 to £8.2 million in 2017. The increase in credit impairment charges was primarily due to growth in the loan portfolio.

Metro Bank's expected credit loss in 2018 decreased by £0.2 million, or 2 per cent., from £8.2 million in 2017 to £8.0 million in 2018. The decrease in expected credit loss was primarily due to the application of IFRS 9 from 1 January 2018 whereby impairments are assessed on a forward-looking basis, compared to on an incurred loss basis under the previous standard, IAS 39.

Taxation

Metro Bank's effective tax rate ("**ETR**") in 2017 was 42.2 per cent. and in 2016 was 2.6 per cent. The increase in the ETR was primarily due to Metro Bank moving from a full year accounting loss in 2016 to a full year profit in 2017 as well as the impact of non-deductible expenses such as non-qualifying depreciation on the ETR. In 2017, Metro Bank was also impacted by legislative changes that required the bank to revalue its deferred tax balance and recognise this change in tax expense, thereby increasing ETR.

In 2018, Metro Bank's ETR was 33.2 per cent. The decrease in the ETR from 2017 was primarily due to the absence of legislative changes in 2018, requiring us to revalue our deferred tax balance. This was offset by a requirement to release a significant portion of our share-based payment deferred tax balance due to the fall in the price of Metro Bank shares during 2018. Part of this release was recognised in tax expense.

Liquidity and Capital Resources

Liquidity

Metro Bank manages liquidity risk by maintaining sufficient liquid assets to meet (i) its internal liquidity requirement as defined by Metro Bank's Liquidity Policy that is owned by the Board and (ii) its regulatory liquidity requirements as measured by the LCR. Metro Bank's LCR was 142 per cent. as of 31 March 2019.

Cash flows

The following table summarises Metro Bank's cash flows for the periods indicated:

	Year ended 31 December			*Three months ended 31 March*	*Three months ended 31 March*
	2016	*2017*	*2018*	*2018*	*2019*
		(£ million)		*(unaudited)*	
Net cash inflows/(outflow) from operating activities	1,169	2,293	153	157	(666)
Net cash inflows/(outflow) from investing activities	(1,349)	(857)	(443)	(584)	775
Net cash inflows from financing activities	398	276	550	1	–
Net increase/(decrease) in cash and cash equivalents	218	1,712	260	(426)	109
Cash and cash equivalents at start of period	282	500	2,212	2,212	2,472
Cash and cash equivalents at end of period	500	2,212	2,472	1,786	2,581

Net cash inflows/(outflows) from operating activities

Net cash inflows from operating activities increased by £1,124 million from £1,169 million in 2016 to £2,293 million in 2017. The principal factor contributing to the increase was the drawdown on TFS.

Net cash inflows from operating activities decreased by £2,140 million from £2,293 million in 2017 to £153 million in 2018. The principal factor contributing to the decrease was an increase in the LTD Ratio.

Net cash outflows from operating activities for the three months ended 31 March 2019 was £666 million. The principal factor contributing to outflow was the increase in the LTD Ratio and the net outflow of deposits in the quarter.

Net cash inflows/(outflows) from investing activities

Net cash outflows from investing activities decreased by £492 million from £1,349 million in 2016 to £857 million in 2017. The principal factor contributing to the decrease was lower net purchases of investment securities caused by an increasing LTD Ratio.

Net cash outflows from investing activities decreased by £414 million from £857 million in 2017 to £443 million in 2018. The principal factor contributing to the decrease was lower net purchases of investment securities caused by an increasing LTD Ratio.

Net cash inflows from investing activities for the three months ended 31 March 2019 was £775 million. The principal factor contributing to inflow was the sale of Treasury assets to support lending growth.

Net cash inflows from financing activities

Net cash inflows from financing activities decreased by £122 million from £398 million in 2016 to £276 million in 2017. The principal factor contributing to the decrease was the lower capital raise in 2017 compared to the listing in 2016.

Net cash inflows from financing activities increased by £274 million from £276 million in 2017 to £550 million in 2018. The principal factor contributing to the increase was the Tier 2 debt raise in 2018.

Capital expenditure

In 2016, 2017 and 2018, and in the three months ended 31 March 2019, Metro Bank's capital expenditure was £143 million, £169 million, £225 million and £40 million, respectively, and principally comprised expenditure in relation to property, plant and equipment and investment in Metro Bank's digital capability. Metro Bank estimates that it will have approximately £170 million of capital expenditure in 2019.

Capital management

Overview

The Directors are required to consider all material risks to which Metro Bank is exposed and determine the capital required to ensure that, under both normalised and stressed conditions, Metro Bank has sufficient capital to meet internal and regulatory capital requirements.

Metro Bank must maintain a certain level of capital to meet several requirements, including:

- to meet regulatory capital requirements;
- to ensure that Metro Bank can meet its business objectives, including its growth objectives;
- to ensure that Metro Bank can withstand future uncertainty, such as economic stress; and
- to provide assurance to depositors, customers, shareholders and other third parties.

Management produces regular assessments of the current and forecasted level of capital, as well as the results of stress testing, to the Directors and the Risk Oversight Committee. Metro Bank complied with all regulatory capital requirements throughout the year ended 31 December 2018.

CRD IV

In June 2013, the European Commission published the final regulation and directive (known collectively as CRD IV) to give effect to the Basel III framework. The objective of CRD IV is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress and, therefore, reduce the risk of spill-over from the financial sector into the rest of the economy. CRD IV was implemented in the UK with effect from 1 January 2014.

The key changes introduced by CRD IV include:

- **Changes to the definition of capital resources**—between 2014 and 2018, there will be changes and additions to capital deductions from Common Equity Tier 1 and Tier 2 capital;
- **New limits and capital buffers**—changes to minimum ratios for all forms of capital with an increased focus on Common Equity Tier 1 and with a requirement to hold capital conservation, countercyclical and systemic risk buffers;
- **Introduction of the leverage ratio**—the Basel Committee is testing and considering a minimum Tier 1 leverage ratio of between 3.0 and 4.0 per cent.;
- **Counterparty credit risk**—introduction of a credit valuation adjustment to the mid-market valuation on OTC derivatives;
- **LCR**—to ensure that banks hold sufficient liquid assets to cover net cash outflows under stressed conditions over a period of 30 days; and
- **Net stable funding ratio ("NSFR")**—to ensure that banks have stable funding in place to support long-term obligations under both normal and stressed conditions over a period of one year (the timing of implementation of NSFR in the UK is unclear).

Capitalisation

Metro Bank has levels of capital in excess of the requirements set from time to time by the PRA. As of 31 March 2019:

- Metro Bank's fully loaded CRD IV Common Equity Tier 1 ratio was 12.1 per cent.;
- Metro Bank's Total Capital Ratio was 14.7 per cent.; and
- Metro Bank's Leverage Ratio was 5.2 per cent.

The table below sets forth Metro Bank's total capital, split by type of capital, as of 31 March 2019.

	As of 31 March 2019 (unaudited)
Common Equity Tier 1 ratio	12.1%
Total regulatory capital	£1,409 million
Total risk-weighted assets	£9,613 million

The table below sets forth the composition of Metro Bank's Common Equity Tier 1 capital, as of 31 March 2019.

	As of 31 March 2019 (unaudited) (£ million)
Total Equity	1406
add IFRS 9 transition adjustment	10
less unaudited profit for Q1	(2)
less intangible assets	(209)
less deferred tax asset	(52)
add deferred tax liability on goodwill	7
Total Common Equity Tier 1	1,160

Off-Balance Sheet Items

As of 31 March 2019, Metro Bank has entered into £1.0 billion off-balance sheet transactions, primarily relating to undrawn loan facilities and commitments in respect of credit cards and overdrafts.

Liquidity

Liquidity is held by Metro Bank in a range of high-quality liquid assets, primarily including cash and government bonds, in addition to covered bonds and AAA-rated RMBS. Metro Bank maintains levels of liquidity that are in excess of those required by the PRA, and as of 31 March 2019, Metro Bank had an LCR of 142 per cent.

Sources of funding

During all periods under review, Metro Bank's funding was principally generated through customer deposits, from its Business and Retail customers, drawings from the Bank of England's TFS scheme, repos, capital provided by shareholders, and Tier 2 debt. See "*Key Factors Affecting Results of Operations – Deposit base and funding*".

Critical Accounting Policies

The discussion and analysis of Metro Bank's financial condition and results of operations are based upon Metro Bank's financial information, which has been prepared in accordance with IFRS. The preparation of this financial information requires management to make estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the related disclosure of contingent assets and liabilities. Estimates are based on available information and experience. Actual results could differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the Historical Financial Information are described in Note 1 to the Historical Financial Information. For a detailed description of Metro Bank's significant accounting policies, see Note 1 to the Historical Financial Information.

PART V

HISTORICAL FINANCIAL INFORMATION

The Group's financial statements as at and for the financial years ended 31 December 2016, 2017 and 2018 are incorporated into this document by reference to the 2016, 2017 and 2018 Annual Report and Accounts. The Group's unaudited consolidated financial information as at and for the three months ended 31 March 2019 and 31 March 2018 are incorporated into this document by reference to Metro Bank's Q1 Trading Update 2019.

PART VI

SELECTED STATISTICAL INFORMATION

*The following tables present certain of Metro Bank's selected statistical information for the periods indicated. The following information should be read in conjunction with the Historical Financial Information, as well as Part IV: "Operating and Financial Review" and Part V: "Historical Financial Information". The statistical information and discussion and analysis presented below as of and for the years ended 31 December 2016, 2017 and 2018 is presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding companies ("**Guide 3**"). Limitations in Metro Bank's existing financial reporting system prevent it from generating certain information pursuant to Guide 3. Certain amounts and percentages included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.*

Distribution of Assets, Liabilities, Stockholders' Equity and Interest Rates

	Closing balances for the three months ended 31 March							
	2018				*2019*			
	Closing spot balance	*Daily average balance*	*Interest income/ (expense)*	*Average yield/ rate paid*	*Closing spot balance*	*Daily average balance*	*Interest income/ (expense)*	*Average yield/ rate paid*
	(unaudited) (£ million (unless stated))							
Cash and cash equivalents & investment securities	6,269	6,194	18	1.18%	5,920	5,967	19	1.27%
Commercial	3,213	3,057	28	3.77%	4,174	4,102	38	3.80%
Asset finance/invoice finance	257	239	4	6.71%	297	297	4	6.08%
Residential mortgage	7,310	6,720	40	2.44%	10,449	10,073	59	2.36%
Consumer & other	232	222	3	4.88%	282	291	4	5.14%
Gross loans (excl. loan fees)	11,013	10,238	75	2.99%	15,201	14,762	105	2.89%
Loan fees	–	–	3	–	–	–	3	–
Gross loans (incl. loan fees)	11,013	10,238	78	3.10%	15,201	14,762	108	2.96%
Total interest earning assets	17,281	16,432	96	2.38%	21,121	20,729	127	2.47%
Total deposits	12,702	12,061	(17)	0.56%	15,095	15,270	(26)	0.70%
Debt securities	–	–	–	–	249	249	(4)	–
FLS	–	–	–	–	–	–	–	–
Deposits from central banks	3,801	3,642	(5)	0.50%	3,801	3,801	(7)	0.75%
Repo funding	90	113	–	0.54%	1,126	582	(1)	0.95%
Lease liabilities	–	–	–	–	316	329	(4)	5.36%
Total interest bearing liabilities	16,593	15,815	(21)	0.55%	20,587	20,231	(43)	0.87%
Net interest earnings	–	–	75	–	–	19,902	84	–
Net interest margin	–	–	–	1.85%	—	–	–	1.64%

	2016				2017				2018			
	Closing spot balance	Daily average balance	Interest income/ (expense)	Average yield/ rate paid	Closing spot balance	Daily average balance	Interest income/ (expense)	Average yield/ rate paid	Closing spot balance	Daily average balance	Interest income/ (expense)	Average yield/ rate paid
	Closing balances for year ending 31 December (unaudited) (£ million (unless stated))											
Cash and cash equivalents & investment securities	3,727	3,188	47	1.46%	6,127	4,852	57	1.17%	6,604	6,273	79	1.26%
Commercial	1,923	1,487	59	4.17%	2,958	2,393	88	3.83%	4,057	3,535	132	3.92%
Asset finance/invoice finance	164	139	13	7.05%	229	197	15	5.47%	299	270	17	4.15%
Residential mortgage	3,604	2,870	81	2.83%	6,231	4,810	123	2.57%	9,625	7,951	192	2.41%
Consumer & other	181	160	8	5.10%	217	200	10	4.93%	288	255	12	4.85%
Gross loans (excl. loan fees)	5,872	4,657	161	3.46%	9,635	7,601	236	3.10%	14,269	12,012	354	2.95%
Loan fees	0	0	6		0	0	9		0	0	11	
Gross loans (incl. loan fees)	5,872	4,657	167	3.58%	9,635	7,601	245	3.22%	14,269	12,012	365	3.03%
Total interest earning assets	9,600	7,844	213	2.72%	15,761	12,453	302	2.42%	20,873	18,284	444	2.43%
Total deposits	7,951	6,564	(52)	0.79%	11,669	9,794	(47)	0.54%	15,661	13,603	(75)	0.61%
Debt securities	–	–	–	0.00	–	–	–	0.00	249	131	(7)	5.50
FLS	–	–	(2)	N/A	–	–	(1)	N/A	–	–	–	0.00
Deposits from central banks	543	75	0	0.25	3,321	1,720	(5)	0.32	3,801	3,762	(23)	0.60
Repo funding	653	755	(5)	0.65%	122	444	(2)	0.35%	344	111	(1)	0.64%
Total interest bearing liabilities	9,147	7,394	(59)	0.80%	15,111	11,957	(61)	0.51%	20,054	17,606	(114)	0.65%
Net interest earnings			154				241				330	
Net interest margin			0	1.97%			0	1.93%			0	1.81%

Interest Differentials

	Closing balances for the three months ended 31 March					
	2018			*2019*		
	Change in interest income/ (expense)	*Changes in volumes*	*Change in rates*	*Change in interest income/ (expense)*	*Changes in volumes*	*Change in rates*
			(unaudited) (£ million)			
Cash and cash equivalents & investment securities	4.9	7.1	(2.2)	0.7	(0.7)	1.4
Commercial	10.1	9.8	0.3	10.1	9.7	0.4
Asset finance/invoice finance	0.5	1.4	(1.0)	0.5	1.0	(0.5)
Residential mortgage	15.6	19.3	(3.8)	18.0	20.2	(2.2)
Consumer & other	0.3	0.4	(0.1)	1.0	0.8	0.2
Gross loans (excl. loan fees)	26.4	31.0	(4.5)	29.6	31.7	(2.1)
Loan fees	0.6	0.6	–	(0.3)	(0.3)	–
Gross loans (incl. loan fees)	27.0	34.4	(7.3)	29.3	34.6	(5.3)
Total interest earning assets	32.0	41.5	(9.5)	30.0	34.0	(4.0)
Demand – non interest bearing	–	–	–	–	–	—
Demand – interest bearing	(2.8)	(2.1)	(0.7)	(2.7)	(1.4)	(1.3)
Fixed term	(1.4)	(3.0)	1.5	(6.9)	(4.0)	(2.9)
Total deposits	(4.2)	(5.0)	0.8	(9.6)	(5.4)	(4.2)
Debt securities	–	–	–	(3.5)	(3.5)	–
FLS	0.5	0.5	–	–	–	—
Deposits from central banks	(4.0)	(1.7)	(2.3)	(2.5)	(0.2)	(2.3)
Repo funding	0.3	0.3	(0.1)	(1.2)	(0.6)	(0.6)
Total interest bearing liabilities	(7.4)	(6.0)	(1.5)	(21.2)	(14.0)	(7.1)
Lease liabilities	–	–	–	(4.3)	(4.3)	–
Net interest earnings	24.5	–	–	8.8	–	–

	For year ending 31 December (unaudited) (£ million)								
	2016			2017			2018		
	Change in interest income/ (expense)	*Changes in volumes*	*Change in rates*	*Change in interest income/ (expense)*	*Changes in volumes*	*Change in rates*	*Change in interest income/ (expense)*	*Changes in volumes*	*Change in rates*
Cash and cash equivalents & investment securities	18.4	11.2	7.2	10.3	24.3	(14)	22.3	16.6	5.7
Commercial	22.0	11.5	13.2	28.2	37.8	(12.3)	44.8	41.8	3.1
Asset finance/ invoice finance	2.5	1.3	(1.5)	2.3	4.1	0.9	2.5	5.5	(3.0)
Residential mortgage	38.9	14.0	25.0	42.3	54.9	(12.7)	68.5	80.6	(12)
Consumer & other	3.8	1.5	2.2	1.7	2.0	(0.3)	2.5	2.7	(0.2)
Gross loans (excl. loan fees)	67.2	28.3	38.9	74.5	98.8	(24.4)	118.3	130.5	(12.1)
Loan fees	2.5	2.5	–	3.6	3.6	–	1.4	1.4	–
Gross loans (incl. loan fees)	69.7	30.9	38.9	78.1	102.4	(24.4)	119.7	131.9	(12.1)
Total interest earning assets	88.2	42.1	46.1	88.4	126.7	(38.4)	142	148.5	(6.4)
Demand – non interest bearing	–	–	–	–	–	—	–	–	–
Demand – interest bearing	(5.8)	(5.2)	(0.5)	(2.1)	(11.1)	9.0	(12.5)	(7.0)	(5.6)
Fixed term	(14.7)	(3.6)	(11.1)	1.4	(9.1)	10.5	(17.9)	(14.7)	(3.2)
Total deposits	(20.4)	(8.8)	(11.6)	(0.6)	(20.2)	19.5	(30.4)	(21.7)	(8.8)
Debt securities	–	–	–	–	–	—	(7.2)	(7.2)	–
FLS	(2.1)	(2,1)	–	0.9	0.9	–	1,2	1.2	–
Deposits from central banks	(0.2)	(0.2)	–	(5.3)	(4.1)	(1.1)	(17.3)	(6.5)	(10.8)
Repo funding	(0.1)	(1.7)	1.6	3.3	2.0	1.3	0.8	1.2	(0.3)
Total interest bearing liabilities	(22.8)	(12.8)	(10.0)	(1.7)	(21.4)	19.7	(52.9)	(33)	(20.0)
Net interest earnings	65.4	29.3	36.0	86.7	105.3	(18.6)	89.0	115.6	(26.4)

Maturities in the "Investment Portfolio" and "Loan Portfolio" tables below reflect actual, expected maturities dates, which in some cases are earlier than the contractual maturities associated with the relevant securities.

Investment Portfolio

	2016	Balances as at 31 December 2017	2018	Balances as at 31 March 2019
		Aggregate Book Value (unaudited) (£ million)		
Issuer				
Gilts	243	303	409	407
Due in one year or less	–	–	–	–
Due after one year through five years	243	303	409	407
Due after five years through ten years	–	–	–	–
Due after ten years	–	–	–	–
RMBS	2,359	2,998	3,062	2,380
Due in one year or less	328	216	605	780
Due after one year through five years	1,670	2,313	2,262	1,408
Due after five years through ten years	361	469	195	193
Due after ten years	–	–	–	–
Covered bonds	295	317	507	552
Due in one year or less	–	13	13	99
Due after one year through five years	295	304	494	453
Due after five years through ten years	–	–	–	–
Due after ten years	–	–	–	–
Corporate bonds	330	267	155	–
Due in one year or less	–	59	18	–
Due after one year through five years	315	209	137	–
Due after five years through ten years	15	–	–	–
Due after ten years	–	–	–	–
Cash portfolio	500	2,212	2,473	2,581
Other	–	30	–	–
Total	3,727	6,127	6,605	5,920
Due in one year or less	328	288	636	878
Due after one year through five years	2,523	3,128	3,301	2,268
Due after five years through ten years	376	469	195	193
Due after ten years	–	–	–	–
Other	–	–	–	–

Loan Portfolio

		Balances as of 31 December		Balances as at 31 March
	2016	*2017*	*2018*	*2019*
		(unaudited)		
		(£ million)		
Types of Loans				
Commercial				
Due in one year or less	24	35	61	63
Due after one through five years	261	478	847	889
Due after five years	1,595	2,303	2,916	2,967
Other	42	141	233	256
Total commercial	1,923	2,958	4,057	4,174
Residential				
Due in one year or less	1	17	43	45
Due after one through five years	146	246	432	471
Due after five years	3,457	5,969	9,150	9,933
Other	–	–	–	–
Total residential	3,604	6,231	9,625	10,449
Consumer & other				
Due in one year or less	63	85	67	67
Due after one through five years	99	110	199	193
Due after five years	4	–	–	–
Other	15	20	22	22
Total consumer & other	181	216	288	282
Asset finance/invoice finance				
Due in one year or less	60	61	66	69
Due after one through five years	98	154	216	211
Due after five years	6	13	17	16
Other	–	–	–	–
Total asset finance/invoice finance	164	229	299	297
Total loans	5,872	9,635	14,269	15,201
Off-balance sheet commitments and contingencies	538	826	1,066	1,044

PART VII

RISK MANAGEMENT

Overview

A core objective for Metro Bank is the effective management of risk to protect its depositors, borrowers and shareholders, and to ensure Metro Bank has adequate capital and liquidity resources.

The risk management framework established by Metro Bank supports decision-making across the bank. Risk appetite, which is set by the Board and managed across the business, is subject to regular monitoring and review. Metro Bank's approach to risk management is supported by its unique culture which places the customer and delivering business objectives "the right way" at the heart of the business. Metro Bank seeks to adopt best practices in risk management and control that are appropriate to the size and complexity of the business. Metro Bank works to optimise risk and return while managing risk at an acceptable level of exposure.

Metro Bank's Chief Risk Officer is responsible for leading Metro Bank's risk function, which is independent from Metro Bank's operational and commercial functions. The risk function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, thereby ensuring that key risks are identified, assessed, monitored and mitigated.

Through Metro Bank's risk function, the Chief Risk Officer is responsible for providing assurance to the Board that Metro Bank's principal risks are appropriately managed and that it is operating within its risk appetite.

The risk management function provides independent reports monthly to the Board and at least quarterly to the ROC on Metro Bank's risk positions, risk management and performance against the risk appetite statements. The reporting and oversight process is designed to provide assurance to the Board and relevant committees regarding the identification, assessment and management of key risks and, in particular, that there are adequate and effective controls in place to manage these risks.

Metro Bank's risk management framework and infrastructure has developed in line with the growth of its customer base. With bespoke technology and a simple product set, Metro Bank's relationship and service focus help it to drive higher growth and lower risk lending.

Risk Management Framework

Metro Bank's risk management framework is outlined in the table below, which sets out the relevant governance and control structure for each of its key risks.

Risk Management Framework

Risk Appetite and Risk Strategy

Principal Risks

	Credit Risk	Operational Risk	Liquidity and Funding Risk	Market Risk	Financial Crime Risk	Regulatory Risk	Model Risk	Conduct Risk
Policy documents	Credit risk policy	Enterprise Risk Management policy	Liquidity policy Treasury & large exposures policy	Treasury Instruments and Dealing Policy Market risk policy	Anti-money laundering policy Sanctions policy	Compliance policy	Model Governance policy	Treating Customers Fairly policy
Risk Reporting	Credit Risk and Analytics reports	Operational Risk reports	ALCO[1] and Treasury reports	ALCO and Treasury reports	Anti Money Laundering Steering Group reports	Regulatory Risk reports	Model risk status reports	Conduct and Voice of the Customer reports
Monitoring Committee	CRPAC	ERC	ALCO	ALCO	ERC	ERC	MGC[2]	ERC
Oversight Committee	ROC							

The responsibility for managing Metro Bank's principal risks rests with the Board, with the ROC, the Audit Committee and the Executive Management Committees assisting it in this function.

Board

Based on the recommendations of the ROC, the Board has ultimate responsibility for setting Metro Bank's risk appetite, which takes into consideration the interests of depositors, customers and shareholders.

The Board approves the level of risk that Metro Bank is willing to accept and ensures there is an adequate framework in place for the reporting and management of those risks. The Board is responsible for ensuring that management has established and maintains a robust control environment to manage the principal risks and is responsible for ensuring the capital and liquidity resources are adequate to achieve Metro Bank's objectives without taking undue risk.

The Board also maintains close oversight of current and future activities, through a combination of monthly board reports, including financial results, operational reports, budgets and forecasts and periodic reviews of the main risks set out in the Internal Capital Adequacy Assessment Process ("**ICAAP**") and Individual Liquidity Adequacy Assessment Process ("**ILAAP**") reports.

Risk Oversight Committee

The ROC assists the Board in providing leadership, direction and oversight with regard to Metro Bank's risk governance and management and also assists the Board in fostering a culture within Metro Bank that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control. The ROC meets at least five times a year and works closely with the Audit Committee.

The ROC is chaired by a Non-Executive Director and comprises a further three Non-Executive Directors. The CEO, CFO and Chief Risk Officer attend as guests.

The ROC:

- recommends to the Board Metro Bank's risk appetite and regularly reviews Metro Bank's risk exposures in relation to the risk appetite;
- reviews Metro Bank's risk policies, and approves or recommends to the Board for approval; and
- monitors the effectiveness of Metro Bank's risk management processes and procedures.
- The Chair of the ROC meets with the Chief Risk Officer and other senior leaders of Metro Bank regularly throughout the year to discuss risk management and control activity.

Audit Committee

The Board has delegated responsibility for reviewing the effectiveness of Metro Bank's internal controls to the Audit Committee. The Audit Committee meets at least five times a year and monitors and considers the internal control environment focusing on operational risks and internal and external audits.

The Audit Committee is chaired by a Non-Executive Director and comprises a further two non-executive Directors. The CEO, the CFO and the Chief Risk Officer also attend.

The Audit Committee:

- monitors the integrity of Metro Bank's financial statements, reviewing significant financial reporting issues and any judgements which they contain;
- monitors and reviews the effectiveness of the internal audit function and approves the appointment or removal of the Head of Internal Audit; and
- oversees the relationship with Metro Bank's external auditor, including reviewing the engagement terms and fees, monitoring their independence and quality control, as well as the audit findings, management letters and audited accounts.

The chair of the Audit Committee meets with both internal and external auditors regularly throughout the year.

Executive Management Committees

The CEO, supported by Metro Bank's executive management team, is responsible for executing the strategy of Metro Bank and making decisions and recommendations to the Board, as appropriate, through the following committees:

- Asset and Liabilities Committee ("**ALCO**");
- Executive Risk Committee;
- Credit Sanctioning Committee;
- Credit Risk, Policy and Appetite Committee; and
- Executive Leadership Team Committee.

The Board has delegated responsibility for managing and overseeing Metro Bank's exposure to liquidity, interest rate and market risk to ALCO.

ALCO meets monthly and is responsible for ensuring that:

- an appropriate balance is maintained between funding and lending activities, ensuring that Metro Bank meets internal liquidity targets as set out in the liquidity policy;
- an analysis of financial market trends is considered along with actual and projected business performance to assess the adequacy of funding to meet the projected targets;
- all pricing decisions are agreed at ALCO to ensure absolute visibility of trading, liquidity and market, and capital impact; and
- monitoring interest rate risk.

ALCO is chaired by the CFO; the CEO, Chief Risk Officer, Treasurer, Chief Operating Officer and the various heads of business are members of the committee.

Executive Risk Committee

The Executive Risk Committee meets monthly and is responsible for:

- reviewing business performance in relation to risk appetite across operational, regulatory (including AML/CTF) and conduct risks;
- oversight of the operation of Metro Bank's Enterprise Risk Management ("**ERM**") framework (discussed below); and
- oversight of the performance of the key risk indicators.

The Executive Risk Committee is chaired by the Chief Risk Officer. Its membership comprises the CEO, MD Commercial Banking, MD, Retail and Business Banking, Chief Commercial Officer, CFO, Chief Operating Officer, Chief People Officer, and the Head of Internal Audit.

Credit Sanctioning Committee

The Credit Sanctioning Committee is responsible for:

- sanctioning of higher value lending requests, and any exceptions to policy;
- monitoring Metro Bank's overdue accounts; and
- granting and reviewing delegated lending authorities.

The Credit Sanctioning Committee meets up to twice weekly and is chaired by either the Chief Risk Officer or Director of Commercial Credit. Its membership comprises the CEO, CFO, Chief Risk Officer, MD Commercial Banking or MD, Retail and Business Banking.

Credit Risk Policy and Appetite Committee

The Credit Risk Policy and Appetite Committee meets monthly and is responsible for:

- overseeing Metro Bank's credit risk policies;
- reviewing proposals on risk appetite;
- approving significant exceptions to policy;
- monitoring portfolio performance against Metro Banks's set risk appetites;
- (with the CFO) approving impairment levels; and
- approving all material aspects of IRB rating systems, including all material models.
- The Credit Risk Policy and Appetite Committee is chaired by the Chief Risk Officer. Its membership comprises the CEO, CFO, Director of Commercial Credit, Director of Credit Risk & Analytics, MD Commercial Banking, MD, Retail and Business Banking, Chief Operations Officer, Chief People Officer and Chief Commercial Officer.

Chief Executive Leadership Committee

The Chief Executive Leadership Committee meets at least weekly and covers (in rotation) the following topics:

- **Audit**: **reports** on completed audits and the progress of existing audits, as well as audit findings.
- **Trading Performance**: **responsible** for reviewing trading performance across each of the business lines within Metro Bank.
- **Finance**: **responsible** for reviewing performance across actual and forecasted costs, income, capital, and provisions.
- **Voice of the Customer**: **provides** direction on actions required to help ensure Metro Bank delivers amazing customer service and consistently fair customer outcomes.
- **Voice of the Colleague**: **responsible** for embedding and strengthening Metro Bank's unique culture through people interventions, and for reviewing the performance of key colleague metrics.
- **Change**: **responsible** for prioritising and reviewing progress of current in-flight change initiatives and approving submitted business cases.
- **IT & Operations**: **responsible** for reviewing the IT and operational performance across Metro Bank, agreeing strategic direction and identifying any areas requiring remedial action.

Enterprise Risk Management

The Board is responsible for the approval of Metro Bank's ERM policy, the operation of which is overseen by the Executive Risk Committee.

The ERM policy is embedded in Metro Bank through the three lines of defence, which defines responsibilities and accountabilities in accordance with the following principles:

- First line of defence – business areas (including support functions) are accountable for owning and managing, within the defined and agreed risk appetite, the risks which exist in their business area. Business areas are directed to conduct appropriate assurance activity to ensure controls are adequate and effective.
- Second line of defence – Metro Bank's risk function provides independent monitoring, advice and assurance to the business area owning the process or the policy. It is accountable for developing the risk and control frameworks and supporting tools which business areas will use to discharge their risk management responsibilities.
- Third line of defence – Metro Bank's internal audit function provides independent assurance that all significant risks are identified and appropriately reported and that they are adequately controlled. This includes an assessment of the effectiveness of the control and monitoring framework.

Leaders within each business area appoint risk and control managers (first line of defence) who are responsible for monitoring the management of risks within their business area, and for liaising with business heads to maintain appropriate risk management practices in their business area. Business heads manage their risk and control activities in the pursuit of business strategies and objectives.

The Chief Risk Officer leads and manages the risk monitoring and control function (second line of defence) and coordinates the implementation of the ERM policy, and the governance process to facilitate integrated risk management, across Metro Bank. This second line of defence evaluates the risk profile of Metro Bank against the risk appetite, monitors risk management practices, and reports on performance to the Executive Committee and Board. In addition, the compliance function carries out monitoring reviews to provide assurance regarding regulatory compliance across Metro Bank.

Principal Risks

Given the nature of the activities undertaken by Metro Bank, the principal risks faced are: credit risk, market risk, liquidity risk, conduct risk, regulatory risk, operational risk, financial crime risk, and model risk. Each risk has a defined risk appetite which is supported though documented policies and overseen by a robust governance process. The principal risks are covered in more detail below.

- Credit Risk: the risk of financial loss due to an obligor's failure to meet the terms of any contract or failure to perform as agreed;
- Market Risk: the risk that earnings or the economic value of equity will under-perform due to changes in interest rates, foreign exchange rates, or other financial market asset prices;
- Liquidity Risk: the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time;
- Conduct Risk: the risk of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment;
- Regulatory Risk: the risk of financial loss or reputational damage due to regulatory non-compliance, breaches, intervention or sanctions. These include fines or penalties, restriction or suspension of business, or the cost of corrective action as a result of failing to adhere to applicable laws, regulations and supervisory guidance;
- Operational Risk: the risk of direct or indirect impact from failed or inadequate processes, people or systems, or exposure to external events;
- Financial Crime Risk: the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime (which is defined as including internal or external fraud, anti-money laundering/counter terrorist financing, bribery and corruption, and sanctions compliance); and
- Model Risk: the potential for negative outcomes from random or systematic errors in model development, input, calculation or use of outputs. Models are always approximations and never perfect, therefore there are risks associated with using models. These risks range from their theoretical basis, to the data and methods used in their construction, the economic conditions under which they are developed, and their use.

All key risks have also been considered in detail as part of Metro Bank's capital adequacy assessment and are documented in its ICAAP document, which is approved by the Board. Liquidity risk is also separately considered in Metro Bank's annual Individual Liquidity Adequacy Assessment paper, which is also approved by the Board. Operational risk is also managed through Metro Bank's ERM policy.

Credit Risk

Credit risk is the risk of principal loss in the event of defaulting mortgage and loan contracts. Credit risk arises from Metro Bank's loan book but can also arise from other off balance sheet activities. However, Metro Bank does not trade in financial instruments.

Credit risks associated with lending are managed through the use of detailed lending policies which outline Metro Bank's approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. Metro Bank maintains a dynamic approach to credit risk management and will take necessary steps if the credit performance deteriorates due to economic or sector-specific weaknesses. This approach to deteriorating credit performance is specifically undertaken by the Business & Credit Support team.

The Director of Credit Risk and Analytics is responsible for development and oversight of the lending policies, and for ongoing monitoring and analysis of portfolio performance within policy and, therefore, against risk appetite thresholds (including concentration limits). The Credit Risk and Analytics team also performs periodic stress tests, using a range of macro and micro economic data to assess the resilience of the lending portfolios to a range of external shocks.

The Director of Commercial Credit has responsibility for commercial underwriting and lending reviews for the key aspects of the lending portfolio. The Director also provides mentoring and business support, covenant monitoring, credit committee management, case credit grading and credit training delivery. Metro Bank also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and limiting exposures on larger loans, certain sectors and other factors which can represent higher risk. Metro Bank also seeks to obtain security cover and where appropriate personal guarantees from borrowers.

The Business & Credit Support team provide work-out and close monitoring for exposures where there is a risk payment that will not be achieved in full and in line with the conditions of the loan.

Each business area has its own lending policy and a dedicated team which assesses credit risk, supported by a Head of Credit having oversight of lending activities. Further information is given below regarding the different lending areas.

The Risk team, Credit Approval Committee, Credit Risk, Policy and Appetite Committee ("**CRPAC**") and ROC have oversight responsibility for credit risk; and credit assurance reviews are conducted by Internal Audit, the outputs of which are reported to the Audit Committee.

Credit risk – lending

Credit risk is managed in accordance with lending policies, the risk appetite and risk management framework. Lending policies and performance against risk appetites are reviewed regularly. This section provides further detail on the specific areas where Metro Bank is exposed to credit risks.

Residential Mortgages

All applications are scored and managed via an origination system that connects the store and broker with the underwriting team. All applications above cut off and in line with the credit policy are reviewed by an experienced team of mortgage underwriters who further verify the application. Applications are underwritten in accordance with the residential mortgage lending policy and each loan has to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies, which provide a detailed insight into the applicant's score, credit history and indebtedness, and which is carefully reviewed by the underwriters.

Metro Bank has a conservative approach to lending: it will typically only lend up to up to 90 per cent. DTV. As at 31 March 2019, the average DTV of the residential mortgage loan book was 60 per cent. (31 December 2018: 61 per cent.). Metro Bank performs indexed revaluation of the collateral at least on an annual basis.

Metro Bank offers advice to mortgage borrowers but does not sell payment protection insurance policies, nor any other type of insurance.

Commercial Mortgages

Metro Bank has a conservative approach to underwriting commercial property loans and this has resulted in a portfolio of low DTV loans to good quality borrowers. A team of experienced underwriters carefully reviews all applications. Properties are individually valued, and a detailed report produced to ensure the property has acceptable security and will present minimal problems in the event of default, where the asset has to be recovered and sold. Valuations are performed by highly experienced and qualified external firms. The valuers provide commentary on the tenancy/letting of properties where the commercial mortgages are connected to an investment property transaction. Affordability assessments are performed on all loans and other forms of security are often obtained, such as a personal guarantee.

Loans to commercial mortgage customers are secured on properties solely located in the UK, principally in the South of England. Concentration risks are closely monitored and credit exposures are well diversified by sector and geography. Regular reviews are performed on loans in the portfolio, with particular attention paid to larger exposures.

Portfolio and Investments

Credit risk of bank and treasury counterparties is controlled through Metro Bank's Treasury Dealing Policy, which limits the maximum exposure by entity where Metro Bank can deposit or invest. Metro Bank also performs stress testing to ensure that its treasury credit risk exposures are sufficiently robust. Credit limits are approved and monitored by Metro Bank's ALCO.

Non-performing Loans and Provisioning

Definitions

Past due: An account can go into arrears by either missing their due amount by one penny or by one day. If the account continues to miss their due amount they will start rolling through the cycles until they manage to clear some or all of their debt at which point they will cure. Details of past due accounts can be found in Metro Bank's Arrears Management Policy.

Impaired: A financial asset is credit impaired when it has met the definition of default. Metro Bank defines default to have occurred when a loan is greater than 90 days past due (non-performing loan) or where the borrower is considered unlikely to pay. Details of Impaired Loans can be found in Metro Bank's Impairment Policy & Methodology.

Management

The performance of loan assets is monitored monthly. Late payments and arrears cases are reported in detail and reviewed on a regular basis, detailed credit reports are submitted for review to the monthly CRPAC and to the ROC on at least a quarterly basis.

Metro Bank maintains a provisioning policy and applies this to all lending activities, setting out policies relating to impairment.

IFRS 9

In 2017, Metro Bank developed and implemented IFRS 9 compliant models that allows the calculation of Expected Credit Losses ("**ECL**"). Metro Bank assesses on a forward-looking basis the ECL associated with the assets carried at amortised cost and fair value through other comprehensive income 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.

*Credit Risk Mitigation ("**CRM**")*

CRR article 453 requires disclosure for the use of CRM, e.g. cash and certain securities held as collateral. Whilst these types of collateral are used in the lending decision process, they are not used when calculating regulatory exposure value.

Credit risk – liquidity portfolio and investment

Credit risk of bank and treasury counterparties is controlled through Metro Bank's Treasury Dealing Policy which limits the maximum exposure by entity where Metro Bank can deposit or invest. All institutions need a sufficiently high credit rating, as detailed within the policy.

Metro Bank uses Standard and Poor's (S&P), Moody's and Fitch as External Credit Assessment Institutions. Ratings from these agencies are mapped to credit quality steps as per CRD IV rules, in order to assess the risk-weight for standardised credit risk calculations.

Metro Bank also performs stress testing to ensure that its Treasury credit risk exposures are sufficiently robust. Credit proposals are presented by Treasury and challenged by Treasury Risk. Credit limits are approved and monitored by Metro Bank's ALCO.

Liquidity Risk

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

Metro Bank has established an Overall Liquidity Adequacy Framework in order to ensure that it adheres to the regulatory Overall Liquidity Adequacy Rule. Metro Bank does this by linking its Liquidity Objectives – which contains the Board's appetite for liquidity risk and funding risk – to its ILAAP, creating a link that allows the Board to:

- identify Metro Bank's material liquidity risks;
- articulate the management of those material liquidity risks;
- determine the Board's risk appetite.

The Board of Directors has overall responsibility for establishing and maintaining an adequate risk management framework, including risk appetites that enable the management of funding and liquidity risk. The Board sets the risk appetite and policy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the ALCO. The Treasury function manages the liquidity position on a day-to-day basis under the oversight of the CFO, CRO and ALCO.

Metro Bank aims to hold a prudent level of liquidity to cover unexpected outflows, ensuring that it's able to meet financial commitments for an extended period. Metro Bank recognises the potential difficulties in monetising certain assets, and therefore sets higher-quality targets for liquid assets for the earlier part of a stress period. Metro Bank has assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and maintain an appropriate liquidity buffer at all times. In addition to cash and balances at central banks, Metro Bank holds a range of highly liquid, marketable assets, including covered bonds and government securities, maintains a balance sheet structure that limits reliance on potentially volatile wholesale funding and holds a portfolio of High Quality Liquid Assets, and these are available to use to raise funding in the event of stress.

Funding and liquidity risks are measured by regulatory and internal metrics that capture stressed cash outflows and inflows in multiple scenarios defined by ALCO; refinancing risks; intraday liquidity risks; and customer and sector concentration risks. An Early Warning Indicator ("**EWI**") framework ensures potential risks to Metro Bank's liquidity profile are highlighted quickly and escalated (see – "*Recovery Plan*"). Metro Bank has a Funds Transfer Pricing ("**FTP**") policy to ensure that liquidity risk is a factor in the pricing of loans and deposits.

Treasury Risk has responsibility for compliance with liquidity policy and strategy. The Treasury Risk team monitors compliance with LCR. ALCO is the responsible committee for liquidity and funding risk. Funding and liquidity cannot be considered without regard to liquidity risk, profitability, and capital optimisation when considering funding sources. Metro Bank issued subordinated debt for the first time in 2018, primarily as a capital management measure. The ALM model is used to capture all positions across Metro Bank and evaluate liquidity. Metro Bank calculates its LCR and performs stress-testing of its liquidity daily. Forward-looking short-range forecasts are produced at least monthly. EWIs are set out in the Liquidity Policy. Colleagues monitor these and bump-up any triggers. A cost of funds model is used to help colleagues account for liquidity, capital, and interest rate risk in pricing.

Recovery Plan

The Recovery Plan ("**RP**") contains a series of EWIs that can identify a liquidity or funding stress, and details management actions that should be taken to generate liquidity and stabilise funding in the event of a stress.

The RP assigns responsibilities and actions to key senior individuals, specifies timeframes in which they can be delivered, and describes how those actions should be delivered. Metro Bank has established a Recovery Committee, chaired by the CFO, which can invoke the RP and which sits as required in the event of a liquidity stress.

Risk Appetite

The Board has established a liquidity risk appetite that requires Metro Bank to survive a combined name-specific and market-wide liquidity stress event with a pool of liquid assets. Metro Bank uses its ILAAP to identify material sources of liquidity risk that could require liquid assets to be held against it, or, adversely affect its prudent funding profile, during the combined name-specific and market-wide liquidity stress event.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates or prices of investment securities, will affect Metro Bank's income or the value of its holdings of financial instruments. At Metro Bank, market risk is the risk posed to earnings, economic value or capital that arises from changes in interest rates, market prices or foreign exchange rates. Metro Bank's earnings and economic value arise primarily from its core lending and savings activities, with minimal impact from market risk position taking. All activity undertaken by Metro Bank is considered banking book activity. The objective of the market risk management strategy is to manage and control market risk exposures within acceptable parameters.

Risk Framework

The ROC has overall responsibility for establishing and maintaining an adequate market risk management framework, including risk appetites that enable the management of market risk in the banking book. The Market Risk Policy is set with a view to ensuring that Metro Bank's funding resources are invested in assets that satisfy its earnings risk and economic value risk appetites. Metro Bank is in the business of accepting deposits which involves maintaining a portfolio of liquid assets, therefore, Metro Bank has the appetite for the revaluation risk that corresponds to holding a portfolio of liquid assets that can be sold at short notice to finance its activities and manage liquidity. Metro Bank has very limited exposure to foreign exchange risk. Foreign exchange assets and liabilities are matched off closely in each of the currencies in which Metro Bank operates, and less than 5 per cent. of its assets and liabilities are in currencies other than pounds.

Mitigation

Metro Bank benefits from natural offsetting between certain assets and liabilities, which may be based on both contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, Metro Bank hedges net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives. Metro Bank enters into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes, and has hedge accounting solutions in place to reduce the accounting profits and losses volatility arising from these hedging activities. The Treasury and Treasury Risk teams work closely together and ensure that risks are managed appropriately, and that Metro Bank is well positioned to avoid losses outside of Metro Bank's appetite, in the event of unexpected market moves.

Measurement

Metro Bank monitors interest rate risk exposure using:

- Economic value sensitivity: calculating repricing mismatches across its assets and liabilities and then evaluating the change in value arising from a change in the yield curve. Metro Bank's risk appetite scenario is based on a parallel rate movement of 2 per cent. to all interest rates, but it evaluates based on a series of other parallel and non-parallel rate changes. The scenarios are designed to replicate severe but plausible economic events and to have regard to risks which would not be evident through the use of parallel shocks alone.
- Interest income sensitivity: the impact on 12-month future income arising from various interest rate shifts. Metro Banks risk appetite scenarios are based on parallel rate movements of 2 per cent. and of divergences of up to 1.15 per cent. between BBR and LIBOR against a constant balance sheet and Metro Bank evaluates a series of other parallel, non-parallel, and non-instantaneous rate changes.

- Interest rate gaps: Calculating the net difference between total assets and total liabilities across a range of time buckets using contractual behavioural profiles.

Metro Bank monitors its exposures to foreign exchange risk daily and does not maintain net exposures overnight in any currency other than pounds, beyond minimum amounts. The FTP policy ensures that market risk is a factor in the pricing of loans and deposits.

Monitoring

Metro Bank uses an integrated ALM system which consolidates all its positions and enables the measurement and management of interest rate repricing profiles for all of Metro Bank. The model takes into account behavioural assumptions as specified in the Market Risk Policy. Material assumptions can be updated more frequently at the request of business areas, in response to changing market conditions or customer behaviours. Interest rate risk measures have limits set against them through the Market Risk Policy, and these are monitored on a regular basis by the Treasury Risk team. Measures close to the limits are escalated to Treasury in order to enable prompt action, and limit excesses are escalated to ALCO. A digest of interest rate risk measures and details of any excesses are presented monthly at ALCO.

Risk Appetite

Metro Bank performs a Market Risk Assessment Process on at least an annual basis, for the identification, measurement, management and monitoring of market risk in the banking book, which allows ALCO and ROC to:

- determine its Market Risk Appetites;
- appraise the methodology for the Market Risk Appetites; and
- scrutinise and approve the modelling assumptions for Metro Bank's Market Risk Appetites.

Regulatory Risk

Metro Bank aims to comply with all relevant rules, regulations and sourcebooks and has no appetite for material regulatory breaches. Metro Bank has policies and procedures in place to ensure compliance with the regulatory obligations and robust oversight and monitoring to evidence compliance. Additionally, Metro Bank regularly engages with the PRA, FCA and other regulators and industry bodies to proactively manage this risk.

In assessing this risk, management considers the control mitigants in place, and the advantages inherent in having no legacy issues to resolve. Key mitigants are a strong, appropriately-resourced risk function, the simplicity of Metro Bank's product range and a culture of delivering unparalleled levels of service and convenience, to ensure the consistent delivery of good customer outcomes; all of which have been positively acknowledged by the FCA in its firm evaluation of Metro Bank. Additional controls include:

- regular reporting of regulatory compliance oversight by the Executive Risk Committee ("**ERC**") and ROC;
- compliance monitoring and outcomes testing programme in place and regularly reviewed;
- control around customer data and IT systems both internally and with outsourcing partners;
- mandatory monthly regulatory training for all colleagues;
- a culture built on transparency and service focused on delivering the right customer outcomes;
- reward and recognition for all colleagues focused on providing exceptional customer service, and recognising risk, compliance and audit requirements;
- training and competency schemes for all customer facing roles; and
- products and services offered pose a low regulatory risk.

Conduct Risk

Metro Bank has no appetite for unfair customer outcomes. It provides customers with simple, fairly priced products delivered through unparalleled levels of services and convenience. In assessing this risk, management considered the control mitigants in place and the advantages inherent in having no legacy issues to resolve. In addition, the simplicity of Metro Bank's product range and Metro Bank's culture of delivering unparalleled levels of service and convenience to its customers help to ensure the consistent delivery of good customer outcomes.

In assessing its conduct risk, Metro Bank considers the control mitigants in place. In addition, the simplicity of Metro Bank's product range and culture of delivering high levels of service and convenience to its customers helps ensure the consistent delivery of fair customer outcomes.

Key controls over conduct risk include:

- a culture built on transparency and service;
- products and services offered being simple and transparent;
- no sales incentive schemes in place;
- training and competency schemes for all customer-facing roles;
- conduct risk training included in the mandatory training for all colleagues;
- close management of third party relationships;
- a compliance monitoring programme in place and regularly reviewed;
- regular consideration of conduct risks at the business risk committees; and
- close and regular oversight of conduct risk by the CEO, CRO, ERC, ROC and Board.

Financial Crime Risk

Metro Bank sets out its risk appetite and approach within its policies and procedures to ensure compliance with its regulatory obligations. Monitoring and oversight is in place to help ensure that systems and controls remain robust and effective. Metro Bank regularly engages with the FCA, other regulators and industry bodies proactively to manage its financial crime risks.

Key controls over financial crime risk include:

- financial crime training included in the mandatory training for all colleagues, and enhanced in customer-facing roles;
- financial crime oversight and assurance of the financial crime risk management framework in the business;
- the development of key risk indicators for management reporting, including the monitoring of risk appetite;
- regular consideration of financial crime risks through a dedicated committee, with monthly submissions to the Board;
- financial crime risk assessment, including impact assessment of each of the key financial crime risks to which Metro Bank is exposed; and
- risk and control assessment, evaluating the effectiveness of the control framework covering financial crime risks to which the business area is exposed.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, IT and other systems or from external events.

Metro Bank aims to accept a low level of operational risk and seeks to minimise operational failures. Key risk indicators are used to provide an overview of the control environment and to assess performance against Metro Bank's operational risk appetite.

As part of its ICAAP, Metro Bank's key operational risks are assessed and quantified.

Each business area within Metro Bank is required to conduct regular risk and control assessments which identify and analyse the core risks facing their business. These are maintained in conjunction with Metro Bank's Operational Risk Team, which oversees the process.

Business continuity plans are also in place for all operational locations. These plans are updated and tested to ensure that they are robust and fit for purpose. Metro Bank uses external disaster recovery sites as back up locations for both IT servers and colleagues.

Model risk

Model risk is the potential for negative outcomes from random or systematic errors in model development, input, calculation or use of outputs. The term model refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates of measurable quantities. A model will consist of three components:

- an information input component, which delivers assumptions and data to the model;
- a processing component, which transforms inputs into estimates; and
- a reporting component, which translates the estimates into useful business information.

The definition of models also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature or delivers a rank ordering scale.

Model risk is increasingly complex across Metro Bank as increased scale and automation drive higher use and materiality of models than previously. Model risk appetite is defined for material models in the bank-wide risk appetite statement. This risk is managed across all models in use across Metro Bank, most significantly in assessing credit, stress testing, affordability, pricing, liquidity and interest rate risks amongst others.

The Model Development team within the Credit Risk function is responsible for building the majority of models using defined processes and methodologies where possible and enhanced with external expertise where required. The independent model validation function is responsible for reviewing the model developments and monitoring.

Key controls over model risk include the following:

- defined roles and responsibilities, with clear ownership and accountability;
- policies, standards and procedures regarding data integrity, development, validation, implementation and ongoing maintenance;
- independent periodic model monitoring and review of models;
- periodic validation;
- formal model approval processes; and
- implementation and user acceptance testing.

Measurement, Monitoring and Appetite

A dedicated model monitoring team is responsible for independently assessing the ongoing performance of models against pre-specified tolerances on a regular basis. Red or amber RAG statuses require that the monitoring team provide explanation and the model owner recommends remedial action to the Model Governance Committee ("**MGC**") accordingly. The MGC is the primary body within Metro Bank concerned with managing model risk with appropriate escalations to executive and board committees based on materiality. The model governance function maintains a model inventory which records key features of models including ownership and review schedules. The model governance function also tracks model risk and actions across Metro Bank.

PART VIII

CAPITALISATION AND INDEBTEDNESS

The following table sets out the Group's capitalisation as of 31 March 2019.

	As of 31 March 2019 (unaudited) (£ million)
Called-up share capital	–
Share premium	1,605
Other reserves	8
Total capitalisation	1,613

As at 31 March 2019, the Group issued 97,420,458 Shares of 0.0001 pence.

The capitalisation information has been extracted without adjustment from the Group's financial information included in Part V "*Historical Financial Information*" of this document as of 31 March 2019. There has been no material change in the Group's capitalisation since 31 March 2019.

The following table sets out the Group's net indebtedness as of 31 March 2019.

	As of 31 March 2019 (unaudited) (£ million)
Indebtedness(1)	
Deposits from central banks(2)	3,801
Debt securities	249
Repurchase agreements	1,126
Total Indebtedness	5,176

Note:

(1) Customer deposits are not classified as indebtedness as the taking of deposits is part of the core business of the Group.

(2) Deposits from central banks comprises solely of amounts drawn down under the Bank of England's Term Funding Scheme.

PART IX

UNAUDITED PRO FORMA FINANCIAL INFORMATION

SECTION A: Unaudited pro forma financial information

The unaudited pro forma financial information in this Part IX (comprising an unaudited pro forma statement of net assets) has been prepared on a voluntary basis in accordance with Annex II to the PD Regulation to illustrate the effect of the Placing on the Group's net assets at 31 March 2019 as if the foregoing had occurred on 31 March 2019.

The unaudited pro forma statement of net assets: (i) is based on the unaudited consolidated financial information as at 31 March 2019; (ii) is compiled on the basis set out in the notes below and in accordance with the accounting policies adopted by the Group for the year ended 31 December 2018; (iii) does not constitute financial statements within the meaning of section 434 of the Companies Act; (iv) has been produced for illustrative purposes only; and (v) because of its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

Investors should read the whole of this document and not rely solely on the unaudited pro forma financial information in this Part IX.

PricewaterhouseCoopers LLP's report on the unaudited pro forma financial information is set out in Section B of this Part IX.

	Group as at 31 March 2019	*Adjustment Net proceeds from the Placing*	*Pro Forma Group*
	(unaudited)	*(unaudited)*	*(unaudited)*
		(£ million)	
	(Note 1)	*(Note 2)*	
Assets			
Cash and balances at central banks	2,370	363	2,733
Loans and advances to banks	211	–	211
Loans and advances to customers	15,167	–	15,167
Investment securities	3,339	–	3,339
Property, plant and equipment	752	–	752
Intangible assets	209	–	209
Prepayment and accrued income	63	(1)	62
Deferred tax asset	39	–	39
Other assets	44	–	44
Total assets	22,194	362	22,556
Liabilities			
Deposits from customers	15,095	–	15,095
Deposits from central banks	3,801	–	3,801
Debt securities	249	–	249
Repurchase agreements	1,126	–	1,126
Other liabilities	517	–	517
Total liabilities	20,788	–	20,788
Net assets	1,406	362	1,768
Common Equity Tier 1 resources (Note 3)	1,160	362	1,522
Common Equity Tier 1 ratio (Note 3)	12.1%	3.7%	15.8%
Leverage ratio (Note 3)	5.2%	1.5%	6.7%
Assets			

Notes:

(1) The Group financial information as at 31 March 2019 has been extracted, without material adjustment, from the Group financial information in Part V.

(2) The adjustment reflects the receipt by the Company of net proceeds from the Placing comprising:

Gross proceeds from the Placing	£375 million
Less: transaction costs	£13 million
Plus transaction costs paid as at 31 March 2019	£1 million
Net Proceeds from the Placing	**£363 million**

No adjustment has been made to reflect trading results of the Group since 31 March 2019.

(3) The common equity tier 1 ratio is the ratio of total common equity tier 1 resources to risk-weighted assets. Common equity tier 1 resources are set out below on both an unadjusted and on a pro forma basis. Risk-weighted assets as at 31 March 2019 were £9,613 million. Risk-weighted assets are unaffected by the pro forma adjustments as the cash deposits are assumed to have a zero risk-weighting.

The leverage ratio is the ratio of total common equity tier 1 resources to total exposures. Common equity tier 1 resources are set out below on both an unadjusted and on a pro forma basis. Total exposures on an unadjusted basis and a pro forma basis were £22,194 million and £22,556 million, respectively. The only pro forma adjustment was to reflect the receipt of the net proceeds from the Placing set out in Note 2.

Common equity tier 1 resources are as follows:

Common Equity Tier 1	*As of 31 March 2019 (unaudited)*	*Adjustment Net proceeds from the Placing (unaudited) (£ million)*	*Pro Forma Group (unaudited)*
Total Equity*	1,406	362	1,768
add back IFRS 9 transition adjustment	10	–	10
Less unaudited profit for Q1	(2)	–	(2)
less intangible assets	(209)	–	(209)
less deferred tax asset	(52)	–	(52)
add deferred tax liability on goodwill	7	–	7
Total Common Equity Tier 1	1,160	362	1,522

* Total equity includes share capital, share premium, retained earnings and other reserves.

(4) No adjustment has been made to reflect the trading results of the Group since 31 March 2019.

SECTION B: Accountant's report on the unaudited pro forma financial information

The Directors
Metro Bank PLC
One Southampton Row
London
WC1B 5HA

RBC Europe Limited
Thames Court
One Queenhithe
London
EC4V 3DQ

17 May 2019

Dear Sirs

Metro Bank PLC (the "Company")

We report on the unaudited pro forma financial information (the "**Pro Forma Financial Information**") set out in Part IX of the Company's prospectus dated 17 May 2019 (the "**Prospectus**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the Placing might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 March 2019. This report is required by item 7 of Annex II to the PD Regulation and is given for the purpose of complying with that PD Regulation and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with Annex II of the PD regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the PD Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3 R(2)(f), we are responsible for this report as part of the Prospectus and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP

Chartered Accountants

PART X

TAXATION

1 UK Taxation

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of New Shares. Prospective acquirers of New Shares are advised to consult their own professional advisers concerning the tax consequences of the acquisition, ownership and disposition of such shares or rights. The following statements are based on current UK tax legislation and the current published practice of HMRC as at the date of this document, both of which are subject to change at any time, possibly with retroactive effect. They apply only to Shareholders and Placees who are resident, and in the case of individuals domiciled or deemed domiciled, for tax purposes in (and only in) the United Kingdom and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-UK residents), who hold their Shares as an investment (other than in an individual savings account or a self-invested personal pension) and who are the absolute beneficial owners of both their Shares and any dividends paid on them. The tax position of certain categories of Shareholders or Placees who are subject to special rules (such as persons acquiring their New Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes) is not considered.

Prospective acquirers of New Shares who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly recommended to consult their own professional advisers.

1.1 *Taxation of Chargeable Gains*

1.1.1 *UK tax resident Shareholders*

(a) New Shares acquired pursuant to the Placing

The issue of New Shares to Placees pursuant to the Placing will not constitute a reorganisation of Metro Bank share capital for the purposes of the UK taxation of chargeable gains ("**CGT**"). Accordingly, any acquisition of New Shares by a Placee pursuant to the Placing will be treated as a separate acquisition of Shares.

(b) Disposals

(i) Individual Shareholders

A disposal or deemed disposal of New Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of CGT.

An individual Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of his New Shares, are less than or equal to the upper limit of the income tax basic rate band applicable in respect of that tax year (the "**Band Limit**") will generally be subject to capital gains tax at the flat rate of 10 per cent. (for the tax year 2019-2020) in respect of any gain arising on a disposal or deemed disposal of his New Shares.

An individual Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of his New Shares, are more than the Band Limit will generally be subject to capital gains tax at the flat rate of 10 per cent. (for the tax year 2019-2020) in respect of any gain arising on a disposal or deemed disposal of his New Shares (to the extent that, when added to the Shareholder's other taxable gains and income in that tax year, the gain is less than or equal to the Band Limit) and at the flat rate of 20 per cent. (for the tax year 2019-2020) in respect of the remainder.

No indexation allowance will be available to an individual Shareholder in respect of any disposal or deemed disposal of New Shares. However, each individual has an annual exemption, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £12,000 for the tax year 2019-2020.

(ii) Corporate Shareholders

Where a Shareholder falls within the charge to UK corporation tax, a disposal or deemed disposal of New Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of corporation tax. Corporation tax is charged on chargeable gains at a rate of 19 per cent. with effect from 1 April 2017.

1.1.2 *Non-UK tax resident Shareholders*

A Shareholder who is not resident for tax purposes in the United Kingdom will not generally be subject to CGT on the disposal or deemed disposal of New Shares unless the Shareholder is carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate Shareholder, a permanent establishment) in connection with which the New Shares are used, held or acquired. Non-UK tax resident Shareholders may be subject to non-UK taxation on any gain under local law.

An individual Shareholder who is temporarily not resident in the UK may, in certain circumstances, be subject to tax in respect of gains realised while they are not resident in the UK.

1.2 ***Taxation of Dividends***

Metro Bank is not required to withhold tax at source from dividend payments that it makes in respect of New Shares.

A UK resident Shareholder's liability to tax on dividends received will depend on the individual circumstances of that Shareholder:

1.2.1 *Individual Shareholders*

The general tax treatment of dividends paid by Metro Bank to Shareholders who are individuals resident and domiciled in the UK for UK tax purposes is as follows:

(a) Dividends paid by Metro Bank do not carry a tax credit.

(b) All dividends received by an individual Shareholder from Metro Bank (or from other sources) will, except to the extent that they are earned through an individual savings account (ISA), SIPP or other regime which exempts the dividends from tax, form part of the Shareholder's total income for income tax purposes and will represent the highest part of that income.

(c) A nil rate of income applies to the first £2,000 (for the tax year 2019-2020) of taxable dividend income received by an individual Shareholder in a tax year (the "**Nil Rate Amount**"), regardless of what tax rate would otherwise apply to that dividend income.

(d) Any taxable dividend income received by an individual shareholder in a tax year in excess of the Nil Rate Amount is taxed at special rates, as set out below.

Where a Shareholder's taxable dividend income for a tax year exceeds the Nil Rate Amount, the excess amount (the "**Relevant Dividend Income**") will be subject to income tax:

(a) at the rate of 7.5 per cent. to the extent that the Relevant Dividend Income falls below the threshold for the higher rate of income tax;

(b) at the rate of 32.5 per cent. to the extent that the Relevant Dividend Income falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax; and

(c) at the rate of 38.1 per cent. to the extent that the Relevant Dividend Income falls above the threshold for the additional rate of income tax.

In determining whether and, if so, to what extent the Relevant Dividend Income falls above or below the threshold for the higher rate of income tax or, as the case may be, the additional rate of income tax, the Shareholder's total taxable dividend income for the tax year in question (including the part within the Nil Rate Amount) will, as noted above, be treated as the highest part of the Shareholder's total income for income tax purposes.

1.2.2 *Corporate Shareholders*

A Shareholder within the charge to UK corporation tax which is a "small company" (for the purposes of UK taxation of dividends) will not generally be subject to tax on dividends from Metro Bank, provided certain conditions are met, including an anti-avoidance condition.

Other Shareholders within the charge to UK corporation tax will be subject to tax on dividends from Metro Bank unless the dividends fall within an exempt class and certain conditions are met. Examples of dividends that are within an exempt class include: (i) dividends paid on shares that are Ordinary Shares and which are not redeemable, and (ii) dividends paid to a person holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital in respect of which the distribution is made) and who is entitled to less than 10 per cent. of the profits available for distribution and would be entitled to less than 10 per cent. of the assets available for distribution on a winding-up. These exemptions are subject to anti-avoidance rules.

Each Shareholder should obtain professional advice on its own position as it will depend on its own individual circumstances.

1.3 ***UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")***

The following statements are intended as a general and non-exhaustive guide to the current UK stamp duty and SDRT position and apply regardless of whether or not a Shareholder is resident in the UK for UK tax purposes.

1.3.1 *Issue of New Shares*

No stamp duty or SDRT will generally be payable on the issue of New Shares pursuant to the Placing. Similarly, where New Shares are credited in uncertificated form to an account in CREST, no liability to stamp duty or SDRT will generally arise.

Following the decision of the European Court of Justice in *HSBC Holdings and Vidacos Nominees* (Case 569/07) and the First-tier Tax Tribunal decision in *HSBC Holdings and The Bank of New York Mellon*, HMRC has confirmed that it will no longer seek to impose SDRT when new shares are issued into a clearance service or depositary receipt service, however the charging legislation is still in force and specific advice should be sought on this point where it applies.

1.3.2 *Subsequent dealings in New Shares*

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), any subsequent dealings in New Shares will be subject to stamp duty or SDRT in the normal way. Subject to an exemption for certain low value transactions, the transfer on sale of New Shares effected outside CREST will generally be liable to stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration payable (rounded up to the nearest multiple of £5) or, if an unconditional agreement to transfer the New Shares is not completed by a duly stamped transfer within six years of the date of the agreement becoming unconditional, or where the transfer is effected in CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable. Stamp duty and SDRT are normally payable by the purchaser. Transfers to connected parties may be subject to SDRT at the market value of the shares if this is higher than the amount of value of consideration payable.

Where New Shares are transferred: (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services; or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the New Shares. There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer will arise on any transfer of shares in Metro Bank into such an account and on subsequent agreements to transfer such shares within such account. Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

2 Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the New Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of the New Shares that are U.S. Holders and that will hold the New Shares as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of the New Shares by particular investors (including consequences under the alternative minimum tax or net investment income), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5 per cent. or more of the shares of the Company, by vote or value, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the New Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the New Shares in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of the New Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds the New Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of the New Shares by the partnership.

Except as otherwise noted, the summary assumes that the Company will not be a passive foreign investment company (a "**PFIC**") for U.S. federal income tax purposes, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NEW SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Dividends

General. The U.S. dollar value of distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally will be taxable to a U.S. Holder as non-U.S. source dividend income, and will not be eligible for the dividends received deduction allowed to corporations with respect to certain dividends. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the New Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to the New Shares will be reported as ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company, including how to account for any distribution that is not paid in U.S. dollars.

Dividends paid by the Company generally will be taxable to a non-corporate U.S. Holder at the reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the income tax treaty between the United States and the United Kingdom (the "**Treaty**") and certain other requirements are met. The Company currently expects to be eligible for the benefits of the Treaty, but no assurances can be made in this regard because, among other things, such eligibility will depend on the amount of trading in the Shares on the London Stock Exchange in the future, which the Company is not able to predict. A U.S. Holder will not be able to claim the reduced rate on dividends received from the Company if the Company is treated as a PFIC in the taxable year in which the dividends are received or in the preceding taxable year. See "—*Passive Foreign Investment Company Considerations*" below.

Sale or other Disposition

Upon a sale or other disposition of the New Shares, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the New Shares, in each case as determined in U.S. dollars. U.S. Holders should consult their own tax advisers about how to account for proceeds received on a sale or other disposition of the New Shares that are not paid in U.S. dollars. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the New Shares exceeds one year. Any gain or loss generally will be U.S. source.

Passive Foreign Investment Company Considerations

A non-U.S. corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it should be treated as a PFIC for its current taxable year and does not expect to become one in the foreseeable future. Although interest income generally is passive income, a special rule allows banks to treat their income from an active banking business, including interest on loans to customers, as non-passive. To qualify for this rule, a bank must satisfy certain requirements regarding its licensing and activities. The Company believes that it currently meets these requirements. The Company's possible status as a PFIC must be determined annually, however, and may be subject to change if the Company fails to qualify under this special rule for any year in which a U.S. Holder holds the New Shares. If the Company were to be treated as a PFIC in any taxable year, U.S. Holders of the New Shares generally would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of the New Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, dividends paid by the Company would not be eligible for the reduced rate of tax described above under "*Dividends—General*". Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to the New Shares by a U.S. paying agent, other U.S. intermediary or paid in the United States will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the acquisition, ownership or disposition of the New Shares, including requirements related to the holding of certain foreign financial assets.

See "*Risk Factors – Metro Bank is subject to rules relating to resolution planning and regulatory action which may be taken in the event of a bank failure*".

FATCA WITHHOLDING

Pursuant to certain provisions of U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the New Shares, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the New Shares, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the New Shares, under proposed U.S. Treasury Regulations, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the New Shares. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the New Shares, neither the Company nor any other person will be required to pay additional amounts as a result of the withholding.

PART XI

ADDITIONAL INFORMATION

1 Responsibility

The Company and the Directors, whose names appear in paragraph 7 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2 Incorporation and Registered Office

2.1 The Company was incorporated and registered in England and Wales under the Companies Act 1985 on 6 November 2007, with the registered number 6419578, as a private company limited by shares under the name Metro Bank Limited. It re-registered as a public limited company under the name Metro Bank PLC on 29 September 2009.

2.2 The Company's registered office and principal place of business is at One Southampton Row, London WC1B 5HA, United Kingdom (telephone number: 0345 08 08 500).

2.3 The Company was granted authorisation by the Financial Services Authority in March 2010 and received a Consumer Credit Act licence from the Office of Fair Trading in August 2009.

3 Share Capital

The share capital history of the Company is as follows:

3.1 On incorporation, the issued share capital of the Company was £100 consisting of 100 ordinary shares of £1 each.

3.2 Upon completion of the Company's initial public offering on 22 March 2016, the Company had an issued share capital of 80,260,640 Shares.

3.3 On 26 July 2017, the Company issued 8,020,000 new Shares as part of a non-pre-emptive cash placing.

3.4 On 25 July 2018, the Company issued 8,851,304 new Shares as part of a non-pre-emptive cash placing.

3.5 Between 23 March 2016 and 16 May 2019 (being the latest practicable date prior to the date of this document), 472,681 Shares have been issued by the Company in connection with the Share Schemes.

3.6 Save as disclosed above, since 1 January 2016 (being the first day covered by the historical financial statements incorporated by reference into this document), there has been no issue of share capital of the Company, fully or partly paid, either in cash or for other consideration, and (other than in connection with the Placing, and the exercise of options under the Share Schemes) no such issues are proposed. As at 16 May 2019 (being the latest practicable date prior to the date of this document) the Company did not hold any Shares in treasury.

3.7 On 24 April 2018, the following resolutions were passed by the Shareholders at a general meeting of the Company:

3.7.1 that, in place of any existing authority conferred upon them for the purpose of Section 551 of the Companies Act, the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Act to exercise all powers of the Company to allot and to make offers or agreements to allot shares or grant rights to subscribe shares or convert any securities into shares (for a period expiring on 30 June 2019 (unless previously renewed, varied or revoked by the Company in general meeting)):

(a) up to an aggregate nominal amount of £29.20; and

(b) up to a further aggregate nominal amount of £29.20 in connection with an offer by way of a rights issue;

3.7.2 that, the Directors be given power to make allotments of equity securities (as defined in Section 560(1) of the Act) wholly for cash (for a period expiring on 30 June 2019 (unless previously renewed, varied or revoked by the Company in general meeting)):

(a) pursuant to the authority given by paragraph 3.5.1(a) above and to sell shares which are held in treasury pursuant to Section 560(3) of the Act and, in each case:

(i) in connection with a pre-emptive offer; and

(ii) otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £4.42; and

(b) pursuant to the authority given by paragraph 3.5.1(b) above in connection with a pre-emptive rights issue,

as if Section 561(1) of the Act did not apply to any such allotment; and

3.7.3 that, the Directors be given power to make allotments of equity securities (as defined in Section 560(1) of the Act) wholly for cash (for a period expiring on 30 June 2019 (unless previously renewed, varied or revoked by the Company in general meeting)):

(a) pursuant to the authority given by paragraph 3.5.1(a) above and to sell shares which are held in treasury pursuant to Section 560(3) of the Act up to an aggregate nominal amount of £4.42; and

(b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of Directors of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

as if Section 561(1) of the Act did not apply to any such allotment;

3.7.4 subject to Admission, pursuant to the Placing, 75,000,000 New Shares will be issued at a price of 500 pence per New Share. This will result in the issued ordinary share capital of the Company increasing by approximately 77 per cent.;

3.7.5 at the General Meeting, the Transaction Resolutions are proposed: (i) to approve the terms (including as to the discount) of the Placing as set out in this document, and to direct the Directors to exercise all powers to cause Metro Bank to implement the Placing; and (ii) to authorise the Directors, pursuant to section 551 of the Companies Act, to allot Shares and to grant rights to subscribe for or convert any security into Shares up to a nominal amount of £75 pursuant to or in connection with the Placing. Additionally, a resolution authorising the waiver of pre-emption rights in connection with such allotment is proposed, which, if approved by the Shareholders, will be relied upon for the purposes of the Placing; and

3.7.6 the New Shares will be allotted to all Placees by a resolution of a duly authorised committee of the Board and created in accordance with the laws of England, will have the same rights in all respects as the Existing Shares (including the right to receive all dividends or other distributions declared by the Company after the date of issue of the New Shares) and the ISIN for the New Shares will be the same as that of the Existing Shares, being GB00BZ6STL67.

3.8 Subject to Admission, pursuant to the Placing, 75,000,000 New Shares will be issued at a price of 500 pence per New Share. This will result in the issued ordinary share capital of the Company increasing by approximately 77 per cent.

4 Dividends

The Company has not declared or paid a dividend for the financial years ended 31 December 2016, 31 December 2017 and 31 December 2018. The Company does not anticipate paying a dividend in the near future.

5 Articles of Association

The Articles have been adopted with effect from Admission and contain, among others, provisions to the following effect:

5.1 ***Shares***

5.1.1 *Share rights*

The Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if authorised by the Company, the Directors. The Company may issue redeemable shares with such terms and conditions as the Directors may determine.

5.1.2 *Voting rights*

Where there is a vote on a show of hands, a Shareholder present at a meeting in person or by proxy has one vote. Where there is a poll, a Shareholder present in person or by proxy has one vote for every Share which they hold or represent. This is subject to any special rights or restrictions which are given to a class of shares and to the Articles. Unless the Directors resolve otherwise, no member shall be entitled to vote either in person or by proxy, or exercise any other right in relation to general meetings, if any call of other sum due from him to the Company in respect of that Share remains unpaid.

5.1.3 *Variation of rights*

Subject to the provisions of the Companies Act, all or any of the rights attached to any class of Shares may from time to time be varied either with the consent in writing of the holders of not less than 75 per cent. in nominal value of Shares of that class (excluding Shares held as treasury shares) or by special resolution of the holders of those Shares.

5.1.4 *Transfer of Shares*

The Shares shall be freely transferable. Transfers of certificated shares must be effected in writing and signed by or on behalf of the transferor. The Directors may decline to register any transfer of a certificated Share, unless the conditions set out in the Articles are complied with. Transfers of uncertificated shares may be effected by means of a relevant system (i.e. CREST) unless the CREST Regulations provide otherwise.

5.1.5 *Restrictions where notice not complied with*

Where the Company sends out a statutory notice under section 793 of the Companies Act requiring information about interests in Shares and the recipient of the notice fails to supply the information within the time specified in it, the Directors may take steps set out in the Articles, including, among others, preventing the recipient from attending or voting at a Shareholders' meeting.

5.1.6 *Conditions governing the manner in which annual general meetings and general meetings are called*

An annual general meeting shall be held in the six-month period following the Company's accounting reference date, at such place or places, date and time as may be decided by the Directors. The Directors may, whenever they think fit, call a general meeting.

Notice of general meetings shall include all information required by the Companies Act 2006 and shall be given to all members entitled to receive such notices under the provisions of the Articles. The Board can specify in the notice of meeting a time by which a person must be entered on the Company's share register in order to have the right to attend or vote at the meeting. The time specified must not be more than 48 hours before the time fixed for the meeting.

No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Two members present in person or by proxy shall constitute a quorum.

The Directors may decide that a general meeting shall be held at two or more locations to facilitate the administration of such meeting or may require attendees to submit to searches or put in place such arrangements or restrictions as they think fit to ensure the safety and security of attendees at a general meeting.

5.2 ***Directors***

5.2.1 *General powers*

The Directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Companies Act 2006 or by the Articles to be exercised by the Company at a general meeting.

5.2.2 *Number of Directors*

The Directors shall not be less than two or more than 12 in number save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of Directors.

5.2.3 *Share qualification*

The Directors are not required to hold any Shares.

5.2.4 *Directors' fees*

Directors' fees are determined by the Directors from time to time except that they may not exceed £3 million per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Shareholders. Directors who hold any executive office, or who serve on any committee of the Directors, or who otherwise perform services which in the opinion of the Directors are beyond the scope of the ordinary duties of a Director, may be paid extra remuneration as the Directors may determine.

5.2.5 *Directors' retirement*

Each Director shall retire at the annual general meeting held in the third calendar year initially following listing and subsequently, or for Directors appointed after listing, at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company. Any Director who retires at an annual general meeting may offer himself for re-appointment by the Shareholders. In accordance with the UK Corporate Governance Code, each Director will be subject to annual re-election by Shareholders.

5.2.6 *Removal of a Director by resolution of Company*

The Shareholders may, by ordinary resolution of which special notice is given, remove any Director before the expiration of his period of office in accordance with the Companies Act, and elect another person in place of a Director so removed from office.

5.2.7 *Proceedings of the Board*

The Board can decide when and where to have meetings and how they will be conducted. If no other quorum is fixed by the Board, two Directors constitute a quorum. A Board meeting at which a quorum is present can exercise all the powers and discretions of the Board. The Board can appoint and remove any Director as chairman or as deputy chairman. Matters will be decided by a majority vote. If votes are equal, the chairman shall be entitled to a casting vote.

The Directors may delegate any of their powers or discretions, including those involving the payment of remuneration or the conferring of any other benefit to the Directors, to such person or committee and in such manner as they think fit.

5.2.8 *Directors' interests*

In accordance with the Companies Act, the Directors have the power to authorise matters giving rise to a breach of each Director's duty to avoid a situation in which he has an interest that conflicts (or might conflict) with the interests of the Company. The Articles set out the process through which this authorisation can be granted, as well as an exhaustive list of generally permissible interests for which specific authorisation is not required.

The Articles also provide that Directors have no voting rights in relation to matters in which they are interested and cannot count in the quorum at a meeting to consider a resolution on such a matter. There are limited exceptions such as where the Director's interest cannot reasonably by regarded as likely to give rise to a conflict of interest.

5.2.9 *Restrictions on voting*

Subject to certain exceptions set out in the Articles, a Director cannot vote on, or be counted in a quorum in relation to, any resolution of the Board on any matter in which he has an interest and, if he does vote, his vote will not be counted. Subject to the Companies Act, the Shareholders may by ordinary resolution suspend or relax to any extent the provisions relating to Directors' interests or restrictions on voting.

5.2.10 *Confidential Information*

If a Director obtains (otherwise than through his position as a Director) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence.

5.2.11 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money, mortgage or charge all or any part or parts of its undertaking, property and uncalled capital, and issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

5.2.12 *Directors' liabilities*

As far as the Companies Act allows this, the Company can indemnify any Director or former Director of the Company or of any associated company against any liability and can purchase and maintain insurance against any liability for any Director or former Director of the Company or of any associated company.

5.3 ***Dividends***

The Company may, by ordinary resolution, declare final dividends to be paid to the Shareholders. However, no dividend shall be declared unless it has been recommended by the Directors and does not exceed the amount recommended by the Directors. The Directors may also pay interim dividends in amounts and on dates and periods as they think fit.

6 Mandatory Takeover Bids, Squeeze Out and Sell Out Rules

6.1 ***Mandatory Takeover Bids***

The UK Takeover Code applies to the Company. Under the UK Takeover Code, if an acquisition of interests in shares were to increase the aggregate holding of an acquirer and persons acting in concert with it to an interest in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending upon the circumstances, persons acting in concert with it would be required (except with the consent of the UK Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares at a price not less than the highest price paid for any interest in shares by the acquirer or his or her concert parties during the previous 12 months. A similar obligation to make such a mandatory offer would also arise on the acquisition of an interest in shares by a person holding (together with any persons acting in concert) an interest in shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

6.2 ***Squeeze-Out Rules***

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the offer relates (the "Offer Shares") and not less than 90 per cent. of the voting rights attached to the Offer Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

6.3 ***Sell-Out Rules***

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Shares, and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Shares to which the offer relates, any holder of Shares to which the offer related who had not accepted the offer could, by a written communication to the offeror, require it to acquire those Shares. The offeror is required to give any shareholder notice of his or her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

6.4 ***Takeover Bids***

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

6.5 ***Controller provisions of the FSMA***

6.5.1 The controller provisions in the FSMA impose obligations on persons who are either proposing to become, or are already, controllers of a UK authorised firm (such as Metro Bank) to obtain FCA approval prior to acquiring or increasing control. A "controller", broadly, is any person who:

(i) holds 10 per cent. or more of the shares or voting power in the authorised firm or any parent undertaking of that authorised firm; or

(ii) is able to exercise significant influence over the management of the authorised firm or any parent undertaking by virtue of such person's shareholding or voting power.

(iii) This definition of "controller" is broad and refers to terms which themselves are subject to detailed definitions (including "voting power" and "parent undertaking").

6.5.2 Potential investors should also be aware that, for the purposes of calculating the level of holding they have in determining whether or not they will be a "controller" of Metro Bank, their shareholding in Metro Bank will be aggregated with any shares or voting power held by any person with whom they are deemed to be "acting in concert". Guidance issued by the previous three Level 3 Committees of European Financial Supervisors (CEBS, CEIOPS and CESR, which have now been replaced by EBA, EIOPA and ESMA respectively) in relation to the EU Acquisitions Directive provides that persons are "acting in concert" when each of them decides to exercise his rights linked to the shares he intends to acquire in accordance with an implicit or explicit agreement made between them. Certain holdings may be disregarded under detailed provisions contained in the FSMA.

7 Directors and Senior Managers

7.1 *Directors*

The Directors are listed below:

Name	*Age*	*Position*
Vernon W. Hill, II	73	Chairman
Alastair (Ben) Gunn	68	Deputy Chairman
Sir Michael Snyder	68	Senior Independent Director
Craig Donaldson	47	Chief Executive Officer
David Arden	50	Chief Financial Officer
Catherine Brown	53	Independent Non-Executive Director
Eugene Lockhart	69	Non-Executive Director
Anna (Monique) Melis	54	Independent Non-Executive Director
Paul Thandi	53	Independent Non-Executive Director
Roger Farah	66	Independent Non-Executive Director
Stuart Bernau	67	Non-Executive Director

The business address of each of the Directors is One Southampton Row, London WC1B 5HA.

Summary biographical details of each of the Directors are set out in the section titled Directors and Advisers. There is no family relationship between any of the Directors.

7.2 *Senior Managers:*

The Senior Managers, and their respective positions within the Company, are listed below:

Name	*Age*	*Position*
Aileen Gillan	50	Chief Risk Officer
Aisling Kane	50	Chief Operating Officer
Danielle Harmer	52	Chief People Officer
Ian Walters	56	Managing Director – Retail and Business Banking
Mark Stokes	57	Managing Director – Commercial Banking
Paul Riseborough	40	Chief Commercial Officer

The business address of each of the Senior Managers is One Southampton Row, London WC1B 5HA.

Summary biographical details of each of the Senior Managers are set out in the section titled Directors and Advisers. There is no family relationship between any of the Senior Managers.

8 Directors' and Senior Managers' Interests

Director	*Number of Shares as at 16 May 2019*[(1)]	*Number of Shares as of Admission*[(2)]	*Percentage holding of Shares as of Admission*[(2)]	*Number of options over Shares as at 16 May 2019*[(1)(3)]
Vernon W. Hill, II and related parties	5,121,344	6,121,344	3.55%	86,000
Alastair (Ben) Gunn and related parties	49,864	69,864	0.04%	27,500
Sir Michael Snyder	28,300	48,300	0.03%	None
Craig Donaldson	181,442	251,442	0.15%	459,182
David Arden	3,400	18,400	0.01%	58,800
Catherine Brown	100	100	0.00%	None
Eugene Lockhart	34,989	44,989	0.03%	33,500
Anna (Monique) Melis	1,690	1,690	0.00%	None
Paul Thandi	None	30,000	0.02%	None
Roger Farah and related parties	685,023	685,023	0.40%	None
Stuart Bernau and related parties	50,154	51,154	0.03%	27,500

Note:

(1) Being the latest practicable date prior to the date of this document.

(2) Assuming no options under the Company's Share Schemes are exercised between the date of this document and Admission becoming effective.

(3) The Company has frozen the vesting of Share options and awards for the Executive Directors and the Executive Leadership Team, including Share options for 2018, pending further analysis and the ongoing external investigations into the RWA adjustment announced on 23 January 2019.

Senior Manager	*Number of Shares as at 16 May 2019*[(1)]	*Number of Shares as of Admission*[(2)]	*Percentage holding of Shares as of Admission*[(2)]	*Number of options over Shares as at 16 May 2019*[(1)]
Aileen Gillan	7,141	7,141	0.0041%	151,719
Aisling Kane	46,218	46,218	0.0268%	182,181
Danielle Harmer	6,943	6,943	0.0040%	138,153
Ian Walters	132	132	0.0001%	106,350
Mark Stokes	None	None	0.0000%	84,400
Paul Riseborough	6,614	6,614	0.0038%	97,021

Note:

(1) Being the latest practicable date prior to the date of this document.

(2) Assuming no options under the Company's Share Schemes are exercised between the date of this document and Admission becoming effective.

8.1 Vernon W. Hill, II, Craig Donaldson, David Arden, Alastair (Ben) Gunn, Eugene Lockhart, Paul Thandi, Stuart Bernau and Sir Michael Snyder being Directors of the Company, have each subscribed for New Shares in the Placing. The table above sets out their shareholdings: (i) as at the latest practicable date prior to the date of this document; and (ii) as such shareholdings are expected to be at Admission following their subscription for New Shares (assuming that no options under the Company's Share Schemes are exercised between the date of this document and Admission becoming effective).

8.2 Save as disclosed herein, as at the date of this document, none of the Directors or the Senior Managers has at any time within the past five years:

8.2.1 save as disclosed in paragraph 8.4 below, been a director or partner of any companies or partnerships;

8.2.2 had any convictions in relation to fraudulent offences (whether spent or unspent);

8.2.3 been adjudged bankrupt or entered into any individual voluntary arrangements;

8.2.4 been a director of any company at the time of or within a 12-month period preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement;

8.2.5 with such company's creditors generally or with any class of creditors of such company;

8.2.6 been partner of any partnership at the time of or within a 12-month period preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

8.2.7 had his assets the subject of any receivership;

8.2.8 been partner of any partnership at the time of or within a 12-month period preceding any assets thereof being the subject of a receivership;

8.2.9 been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

8.2.10 ever been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company.

8.3 Save for their capacities as persons legally and beneficially interested in Shares, there are:

8.3.1 no potential conflicts of interest between any duties to the Company of the Directors or the Senior Managers and their private interests and/or other duties; and

8.3.2 no arrangements or understandings with major Shareholders, members, suppliers or others, pursuant to which any Director or the Senior Managers was selected.

8.4 Set out below are the directorships and partnerships held by the Directors and Senior Managers (other than, where applicable, directorships held in subsidiaries of the Company) in the five years prior to the date of this document.

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Vernon W. Hill, II	Site Development Inc. and various other related entities	Hill-Townsend Capital, LLC
	US Restaurants Inc.	JVSW, LLC
	Fetch Inc. (Petplan North America)	
	Galloway National Golf Club Inc.	
	First Republic Bancorp, Inc.	
Craig Donaldson	Switch The Play CIC	Banking Standards Board
	TheCityUK	
	SME Invoice Finance Limited	
	SME Asset Finance Limited	
	RDM Factors Limited	
Alastair (Ben) Gunn	None	The Gunn Pub Company Limited
		Iress (UK) Limited
		Avelo plc
		Aviva Insurance UK Limited
		Aviva Life Holdings UK Limited
		Robert Owen Communities

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Sir Michael Snyder	Crossrail Art Foundation St Peter's Street Developments Ltd Bramdean Consultants LLP	London Metropolitan University Limited London Business Loans (Wholesale) Limited Devonshire Corporate Finance Ltd Kingston Smith Corporate Finance Ltd Balanced People Limited Blacktower Financial Advisers Limited Devonshire House (Nominees) Limited Invest in Thames Gateway London Limited St Peter's Homes Development Limited Devonshire Group Services Ltd Devonshire Corporate Services LLP HR Insight Ltd Kingston Smith Advisers Ltd Kingston Smith Financial Advisers Ltd Kingston Smith Group Services Ltd Kingston Sorel International KSI Logo Ltd KSLS Management Ltd VAT Agents Ltd Kingston Smith LLP Kingston Smith & Partners LLP Kingston Smith Consulting LLP Kingston Smith Pension Trustees LLP Finsbury 123 Ltd GLA Loan Finance Ltd (London Loan Fund) Letchford House Management Ltd Kingston Smith Financial Services Ltd
David Arden	SME Invoice Finance Limited SME Asset Finance Limited RDM Factors Limited	Sainsbury's Bank PLC Home Retail Group Insurance Services Limited Home Retail Group Card Services Limited ARG Personal Loans Limited Community Integrated Care
Catherine Brown	Additive Flow Ltd FNZ TA Services Limited FNZ (UK) Ltd Cancer Research UK Blue Cross The Plastic Economy Ltd QBE Underwriting Limited QBE UK Limited	

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Eugene Lockhart	MissionOG LLC Huron Consulting Gruo (NASD: HURN) Accurate Information Group LLP Alkami LLC INGO LLP Community Choice Holdings LLP Behalf LLC Featurespace Limited	First Republic Bank MasterCard Inc IMS Health Asset Acceptance Electronic Clearing House Netspend Inc Argus Information LLP Vesta LLP Harbor Payments LLP Avant LLP Factor Trust LLP Aaron's Inc (NASD: AAN) RJR Nabisco (NYSE: RJR) National Grid (NYSE: GRID) Pay 4 Later LLP
Anna (Monique) Melis	Duff & Phelps Limited Duff & Phelps (Luxembourg) Management Company 90 TBR Management Limited	Kinetic Partners Global LLP
Paul Thandi	WMGC Enterprises Limited Bowel Cancer UK (development board) True North Associates Limited Nevada Topco Limited Nevada Midco Limited Nevada Bidco Limited British Allied Trades Federation National Exhibition Centre Limited National Exhibition Centre (Ireland) Limited West Midlands Growth Company Limited NEC Property (Number One) Limited LHTCA Bidco Limited LHTCA Midco Limited LHTCA Topco Limited	NEC Finance Limited Sports Show Limited
Roger Farah	Tiffany & Co CVS Health The Progressive Corporation Aetna	Ralph Lauren Corporation Tory Burch
Stuart Bernau	Minchinhampton Golf Club Limited	Nationwide Pension Fund Nominee Ltd Nationwide Pension Fund Trustee Limited Standard Financial Group Limited Fantastic Tackle Group Ltd Almericus LLP Altiare Vitae Limited Bernau Consulting Limited Bernau Estates LLP

Name	*Current directorships/partnerships*	*Past directorships/partnerships*
Aileen Gillan	Standard Life Savings Limited Elevate Portfolio Services Limited	None
Aisling Kane	None	None
Danielle Harmer	None	None
Ian Walters	None	None
Mark Stokes	SME Invoice Finance, SME Asset Finance, RDM Factors	None
Paul Riseborough	Making the Leap	Finance Innovation Lab

9 Interests of Major Shareholders

Insofar as the Company had been notified under the Disclosure Guidance and Transparency Rules, the names of the persons who, directly or indirectly, have an interest in three per cent. or more of the Company's issued share capital, and their respective interests, as at 30 April 2019 (being the latest practicable date prior to the publication of this document) are as follows:

	Shares	
Name	*(No.)*	*(%)*
Cohen Private Ventures	9,729,327	9.99%
Fidelity Management and Research	7,353,358	7.55%
The Spruce House Partnership	5,800,000	5.95%
Mr Tom Smith	5,380,542	5.52%
Wasatch Advisors	5,315,220	5.46%
Vernon W Hill, II	5,121,344	5.26%
Acacia Partners	5,020,755	5.15%
Abgrandkids	4,589,281	4.71%
Morgan Stanley	4,531,000	4.65%
Bank of America Merrill Lynch	4,374,118	4.49%
Immersion Capital	3,734,368	3.83%
The Toll Family	3,252,726	3.34%

So far as the Company is aware, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government or any other natural or legal person, severally or jointly.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

So far as the Company is aware, immediately following the Placing, the interests of those persons set out above with an interest in 3 per cent. or more of the Company's issued share capital (assuming that no options under the Company's Share Schemes are exercised between the date of this document and Admission becoming effective) will be as follows:

	Shares	
Name	*(No.)*	*(%)*
Cohen Private Ventures	15,729,327	9.12%
Fidelity Management and Research	14,651,010	8.50%
The Spruce House Partnership	11,670,426	6.77%
Mr Tom Smith	7,284,617	4.22%
Wasatch Advisors	9,410,220	5.46%
Vernon W Hill, II	6,121,344	3.55%
Acacia Partners	9,383,255	5.44%
Abgrandkids	4,589,281	2.66%
Morgan Stanley	4,531,000	2.63%
Bank of America Merrill Lynch	4,374,118	2.54%
Immersion Capital	6,779,368	3.93%
The Toll Family	5,252,726	3.05%

10 Directors' Service Agreements, Letters of Appointment and remuneration

10.1 *Base salary, fees, bonuses and benefits in kind*

The amount of remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to:

- the Executive Directors by the Group for the year ended 31 December 2018 is set out on page 87 of the 2018 Annual Report and Accounts (which is incorporated into this document by reference); and
- the Non-Executive Directors by the Group for the year ended 31 December 2018 is set out on page 93 of the 2018 Annual Report and Accounts (which is incorporated into this document by reference).

In the year ended 31 December 2018, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) by members of the Group to the Directors and the Senior Managers was approximately £2.9 million and £3.3 million respectively.

No Director received any expense allowances chargeable to UK income tax or compensation for loss of office/termination payment. The Non-Executive Directors did not receive any bonus payments or benefits.

In the year ended 31 December 2018, no amount was set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors save for the amounts set out in the tables on page 87 of the 2018 Annual Report and Accounts, which is incorporated into this document by reference.

10.2 *Retirement benefits*

The retirement benefits of the Executive Directors, including the amount accrued by the Group to provide pension, retirement or similar benefits for the year ended 31 December 2018 are set out on page 86 of the 2018 Annual Report and Accounts, which is incorporated into this document by reference.

Non-Executive Directors are not provided retirement benefits by the Group.

For the year ended 31 December 2018, the total amount set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors was £104,015.

10.3 *Service contracts and letters of appointment*

Information about the Executive Directors' contracts of employment with the Company, including the terms of those contracts and benefits upon termination of employment, and the terms of employment for Non-Executive Directors in relation to the year ended 31 December 2018 is set out on page 86 of the 2018 Annual Report and Accounts, which is incorporated into this document by reference.

Save as mentioned above, there are no service agreements between any Director and any member of the Group.

Key details of the contracts of employment and/or service contracts of each Director are set out below:

Director	*Date of appointment*	*Notice period*
Vernon W. Hill, II	18 August 2008	Two months
Alastair (Ben) Gunn	5 March 2010	One month
Sir Michael Snyder	22 September 2015	One month
Craig Donaldson	5 March 2010	Twelve months
David Arden	29 March 2018	Six months
Catherine Brown	1 October 2018	One month
Eugene Lockhart	5 March 2010	One month
Anna (Monique) Melis	20 June 2017	One month
Paul Thandi	1 January 2019	One month
Roger Farah	1 February 2014	One month
Stuart Bernau	5 March 2010	One month

Any proposals for the early termination of the service contracts of Executive Directors are considered by the Nomination Committee taking into account contractual terms and the principles of mitigation.

The Non-Executive Directors have letters of appointment reflecting their responsibilities and commitments, pursuant to which they are appointed for an initial two-year term which may be extended on the recommendation of the Nomination Committee and subject to the Board's agreement. The Non-Executive Directors' letters of appointment contain a one month notice period.

Craig Donaldson requested that the Remuneration Committee did not consider him for variable reward for 2018.

11 Share Schemes

The Company operates the Deferred Variable Reward Plan 2016 (the "**Deferred Variable Reward Plan**"), the key terms of which are summarised below, to enable colleagues to continue to defer some or all of their annual variable reward into options over Shares.

Prior to completion of the Company's initial public offering, the Company also operated the Long Term Reward Plan 2014 (the "**Long Term Reward Plan**") on substantially the same terms as the Deferred Variable Reward Plan for both Executive and Non-Executive Directors (though no awards have been made under this plan to Non-Executive Directors since 2015 (relating to the 2014 performance year)). For further details of outstanding awards made to Non-Executive Directors under the Long Term Reward Plan please refer to the Directors' Remuneration Report on pages 96 to 97 of the 2018 Annual Report and Accounts.

11.1 *Eligibility*

Colleagues and Executive Directors of the Company and designated subsidiaries are eligible to participate in the Deferred Variable Reward Plan.

11.2 *Invitation to participate*

The Board may select any person to participate in the Deferred Variable Reward Plan in respect of their variable reward for any year. If selected, a participant will be allowed or required to receive some or all of their variable reward in the form of an award under the Deferred Variable Reward Plan.

11.3 *Grant of awards*

Awards can take the form of:

- rights to receive free Shares on vesting;
- an option to acquire shares at a price determined by the Board at grant (which may be nil); or
- restricted shares which are issued or transferred to the participant on grant on the basis that they must be given back to the extent that the award lapses before vesting.

Shortly after the amount of the cash element is calculated, the participant will be granted an award. The number of shares (rounded down to the nearest whole share) under award will have a market value, at the date of award, which is no more than the portion of the bonus which is to be received in the form of an award. If the award is an option, the option will have a fair value which is no greater than the portion of the bonus to be received as an award. The balance will be paid in cash or such other form as the Board may determine.

Awards will normally only be granted within 42 days of announcement of the Company's results for any period or at other times in exceptional circumstances.

No awards can be granted more than 10 years after Admission.

11.4 ***Performance conditions***

Vesting of awards may be subject to performance conditions set by the Board at grant. The performance conditions may be waived or amended where the Board considers it is reasonable in the circumstances and the amended condition produces a fairer measure of performance and is not materially less difficult to satisfy.

11.5 ***Limits on newly issued Shares***

In any 10-year period, not more than 10 per cent. of the issued ordinary share capital of the Company may be issued or be issuable under the Deferred Variable Reward Plan and all other colleagues' share plans adopted by the Company. These limits do not include awards which have lapsed or those granted on or before Admission such as the Project Revolution Awards described below.

Treasury shares transferred to satisfy an award will be counted as if new shares had been issued for so long as it is considered best practice to do so.

11.6 ***Clawback***

The Board can reduce or delay the vesting of an award or clawback amounts already paid out in certain circumstances, including misstatement of financial figures, misconduct by the participant, failure of risk management, damage caused to the Company's reputation, or in other exceptional circumstances as determined by the Board.

11.7 ***Vesting of awards***

Awards will normally vest, to the extent any performance condition is met over the deferral period on the vesting dates set by the Board on award.

Shares will be issued or transferred to the participant shortly after vesting or exercise in the case of an option. The Board can decide to satisfy an award in cash.

An award may also carry a right to additional shares or cash based on the value of dividends payable on the number of Shares in respect of which the award vests before vesting or exercise.

11.8 ***Leaving employment***

An award will normally lapse if the participant leaves employment. But if the participant leaves in special circumstances such as ill-health, redundancy or a sale of their employer or other circumstances determined by the Board, their award will normally continue in effect and vest on the normal timeframe.

11.9 ***Takeovers and reorganisations***

Awards will generally vest early on a takeover, merger or other corporate reorganisation. Alternatively, participants may be allowed or required to exchange their awards for awards over shares in the acquiring company.

Where an award vests in these circumstances, any performance condition will be tested to the date of the relevant event.

11.10 ***Rights issues, demergers etc.***

The number of Shares subject to an award (and/or the exercise price of an option) may be adjusted to reflect a rights issue, demerger or any variation in the share capital of the Company.

11.11 ***General***

Awards are not transferable (except to personal representatives on death) and are not pensionable and participants do not pay for the grant of an award.

Any Shares issued following the vesting of awards will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

11.12 ***Amendments***

The Board can amend the Deferred Variable Reward Plan in any way. However, shareholder approval will be required to amend certain provisions to the advantage of participants. These provisions relate to eligibility, individual and Deferred Variable Reward Plan limits, the rights attaching to awards and shares, the adjustment of awards on variation in the Company's share capital and the amendment powers.

The Board can, without shareholder approval, change performance conditions as described above, make minor amendments to benefit the administration of the Deferred Variable Reward Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

The Board may also, without shareholder approval, establish further plans based on the Deferred Variable Reward Plan, but modified to take account of overseas securities laws, exchange controls or tax legislation. Shares made available under such further Deferred Variable Reward Plans will be treated as counting against any limits on individual or overall participation in the Deferred Variable Reward Plan.

11.13 ***Project Revolution Awards for selected members of the management team***

Pursuant to the Deferred Variable Reward Plan, on 4 March 2016 selected members of the management team including the current CEO were granted Share awards at £20 per Share, with 20 per cent. vesting immediately upon completion of the Company's initial public offering on 22 March 2016 and a further 16 per cent. scheduled to vest in five equal annual instalments from April 2017 to April 2021.

11.14 ***Project Revolution Awards for Advisory Board***

Pursuant to the Deferred Variable Reward Plan, on 4 March 2016 each member of the Metro Bank Advisory Board was granted Share options, with the options scheduled to vest in five equal annual instalments starting 30 April 2017.

12 Subsidiaries and Corporate Structure

The Company is the principal operating and holding company of Metro Bank. A list of the direct and indirect subsidiaries of the Company are set out at page 158 of the 2018 Annual Report and Accounts, which is incorporated by reference into this document.

13 Pension Schemes

The Company operates and makes contributions for its colleagues to a defined contribution pension scheme (or equivalent pension arrangements). The Company makes employer contributions to the group personal pension plan of generally between 4 per cent. and 10 per cent. of basic salary.

The total pension cost in the year ending 31 December 2018 amounted to £9.1 million for the defined contribution pension scheme and certain colleagues' individual personal pension plans.

The assets of these arrangements are held separately from those of the Company in independently administered funds.

The total amount set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits for the Directors for the financial year ended 31 December 2018 was £104,015.

The total amount set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits for the Senior Managers for the financial year ended 31 December 2018 was £196,004.

14 Auditor

The auditor of Metro Bank from December 2010 is PricewaterhouseCoopers LLP, chartered accountants, whose address is at 1 Embankment Place, London WC2N 6RH.

15 Placing Arrangements

The Company and the Joint Bookrunners have entered into the Placing Agreement pursuant to which, the Joint Bookrunners have agreed, on a several basis and on the terms and subject to the conditions of the Placing Agreement, as agents for the Company, to use their best endeavours to procure Placees at the Issue Price for the New Shares in such number, if any, as may be agreed between the Company and the Banks. The Banks agree with the Company that, to the extent that, any such Placee defaults in paying the Issue Price in respect of any New Shares allotted to it, they will subscribe for such New Shares at the Issue Price in their respective agreed proportions.

Pursuant to the terms of the Placing Agreement, the Company has also appointed RBC as its sole sponsor and its London Stock Exchange representative in connection with its applications for Admission. In consideration of their services under the Placing Agreement, and subject to their obligations under the Placing Agreement not having been terminated, the Company has agreed to pay to the Joint Bookrunners a commission of 2.5 per cent. of the aggregate value of the New Shares at the Issue Price (in accordance with their agreed proportions), reducing to 1.25 per cent. in respect of any New Shares that a shareholder of the Company has given an irrevocable commitment to subscribe for prior to execution of the Placing Agreement. The Company will also pay (irrespective of whether Admission occurs) certain of the fees, costs and expenses of, or in connection with, the Placing.

The Company has given certain customary representations and warranties to the Joint Bookrunners as to the accuracy of the information contained in this document and other relevant documents, and in relation to other matters relating to the Group and its business. In addition, the Company has given customary indemnities to the Joint Bookrunners and certain persons connected with each of them. The Company has also provided certain customary undertakings to the Joint Bookrunners for the period following Admission, including an undertaking (subject to certain exemptions) not to offer, *inter alia,* issue or grant any rights over any Shares or related securities for a period ending 180 days from the date of the Admission.

The obligations of the Joint Bookrunners under the Placing Agreement are subject to certain conditions, including:

(i) the passing of the Resolutions; and

(ii) Admission occurring at or before 8.00 a.m. on 5 June 2019 (or such later time and/or date as Metro Bank and the Joint Bookrunners may agree, being not later than 12 June 2019).

If any of the conditions are not satisfied (or waived by the Joint Bookrunners) or shall have become incapable of being satisfied by the required time and date, the Placing Agreement will be capable of termination. The Joint Bookrunners may terminate the Placing Agreement in its entirety in certain circumstances prior to Admission, including where there has been a breach of warranty or where a force majeure event has occurred. Following Admission, the Placing Agreement will not be subject to any condition or right of termination (including in respect of statutory withdrawal rights).

16 The Corporate Governance Code

The Company recognises the importance of, and is committed to, high standards of corporate governance. The following paragraphs explain how the Company has applied the main and supporting principles set out in the Corporate Governance Code.

During the Company's financial year ended 31 December 2018, the Company was fully in compliance with the April 2016 version of the Corporate Governance Code, as described on pages 55, 62 and 63 of the 2018 Annual Report and Accounts.

The July 2018 edition of the Corporate Governance Code applies to financial years beginning on or after 1 January 2019 and, therefore, applies to Metro Bank in relation to its financial year that commenced on 1 January 2019. The Corporate Governance Code recommends that at least half of a company's board of directors (excluding the chair) should be non-executive directors whom the board considers to be independent. The Corporate Governance Code also recommends that where a non-executive director has served on the board for more than nine years this is likely to, or could appear to, impair such director's independence.

Ben Gunn, Eugene Lockhart and Stuart Bernau have been Non-Executive Directors of the Company since March 2010 and have overseen the Company's significant growth during that time, including the milestone of its listing on the London Stock Exchange in March 2016. Recognising the Corporate Governance Code's recommendations in respect of tenure and independence, however, the Company decided to no longer treat these Non-Executive Directors as independent from 5 March 2019.

As a result, there was a brief transitional period where: (i) between 5 March 2019 and 30 April 2019, the Board (excluding the Chairman) was not fully compliant with the independence recommendations of the Corporate Governance Code; and (ii) between 5 March 2019 and 31 March 2019, the composition of the Audit, Nomination and Remuneration Committees was not fully compliant with the independence recommendations of the Corporate Governance Code, but during which period there were no meetings of such committees.

Following the retirement of Keith Carby on 30 April 2019, however, the Board (excluding the Chairman) comprises 10 Directors, of whom five are independent Non-Executive Directors, and, accordingly, since 1 May 2019 and as at the date of this document the Board is fully compliant with the independence recommendations of the Corporate Governance Code. In addition, following the changes to the composition of the Audit, Nomination and Remuneration Committees on 1 April 2019, these committees are now fully compliant with the independence recommendations of the Corporate Governance Code.

16.1 *Audit Committee*

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing Metro Bank's annual and half-year financial statements and accounting policies, internal and external audits and controls, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit, audit controls, whistleblowing and fraud systems in place within Metro Bank. The Audit Committee will meet normally not less than four times a year.

In compliance with the requirements of the UK Corporate Governance Code, the Audit Committee is made up of three members who are each independent Non-Executive Directors and includes one member with recent and relevant financial experience. The Audit Committee is chaired by Sir Michael Snyder and the other members of the Audit Committee are Roger Farah and Monique Melis.

16.2 *Nomination Committee*

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board. It is also responsible for reviewing succession plans for the Directors, including the Chairman and CEO and other senior executives.

In compliance with the requirements of the UK Corporate Governance Code, a majority of the members of the Nomination Committee are independent non-executive directors. The Nomination Committee is chaired by Roger Farah, and its other members are Vernon W. Hill, II, Catherine Brown and Paul Thandi. The Nomination Committee will normally meet not less than twice a year.

16.3 ***Remuneration Committee***

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, including setting the over-arching principles, parameters and governance framework of Metro Bank's remuneration policy and determining the individual remuneration and benefits package of each of the Company's Executive Directors. The Remuneration Committee will also ensure compliance with the UK Corporate Governance Code in relation to remuneration.

In compliance with the UK Corporate Governance Code, the Remuneration Committee is comprised entirely of independent Non-Executive Directors. The Remuneration Committee is chaired by Roger Farah, and its other members are Catherine Brown and Paul Thandi. The Remuneration Committee will meet normally not less than twice a year.

16.4 ***Risk Oversight Committee***

The ROC is responsible for providing oversight and advice to the Board in relation to risk management systems, risk appetite, strategy and exposure, reviewing and approving risk policies, assessment processes and reporting within Metro Bank.

The ROC is made up of four members, half of whom are independent Non-Executive Directors. The ROC is chaired by Eugene Lockhart, and its other members are Stuart Bernau, Catherine Brown and Monique Melis. The ROC will normally meet not less than four times a year.

17 Material Contracts

The following are summaries of all of the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by the Company or any member of the Group (i) within the two years immediately preceding the date of this document which are, or may be, material to the Group, or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Group at the date of this document.

17.1 ***Placing Agreement***

See details of the Placing Agreement at paragraph 15 above.

17.2 ***Standby Underwriting Agreement***

The Company and the Joint Bookrunners entered into the Standby Underwriting Agreement on 26 February 2019 pursuant to which the Joint Bookrunners agreed, on the terms and subject to the conditions set out in the Standby Underwriting Agreement, to procure subscribers for, or failing which themselves to subscribe for, the issue of new shares, by way of a placing and open offer, rights issue or any combination of these with a firm placing, or such other equity raising process as may be agreed, in each case at no less than nominal value. Pursuant to the Standby Underwriting Agreement, the Company agreed to pay certain fees to the Joint Bookrunners in consideration for their underwriting commitments and the Company has given certain customary representations and warranties and indemnities to those persons defined as underwriters in the Standby Underwriting Agreement.

17.3 ***2018 Placing Agreement***

Pursuant to the 2018 Placing Agreement, the Company conducted a non-pre-emptive cash placing of up to approximately 8.85 million new ordinary shares through an accelerated book-build process conducted by the Joint Bookrunners. The placing was conditional, among other things, upon admission of the shares becoming effective and the 2018 Placing Agreement not being terminated in accordance with its terms.

In consideration of their services under the 2018 Placing Agreement, and subject to their obligations under the 2018 Placing Agreement not having been terminated, the Company agreed to pay to the Joint Bookrunners a base commission of 0.85 per cent. of the aggregate value of certain of the new shares at the issue price (in accordance with their agreed proportions) and, at the absolute discretion of the Company, a further commission of up to 0.25 per cent.. The Company also paid (irrespective of whether admission occurred) certain of the fees, costs and expenses of, or in connection with, the placing.

The Company gave certain customary representations and warranties to the Joint Bookrunners as to the accuracy of the information provided and in relation to other matters relating to the Group and its business. In addition, the Company gave customary indemnities to the Joint Bookrunners and certain persons connected with each of them. The Company also provided certain customary undertakings to the Joint Bookrunners for the period following admission, including an undertaking (subject to certain exemptions) not to offer, issue or grant any rights over any Shares or related securities for a period ending 180 days from the date of the admission.

17.4 ***2018 Acquisition Agreement***

Pursuant to the terms of the 2018 Acquisition Agreement the Company purchased a portfolio of UK mortgages from CERH RSMC Sub B.V. and Capital Home Loans Limited. The acquisition of the mortgage portfolio was completed on 1 March 2018. The consideration for the portfolio of mortgages was £523 million, which was financed using cash from existing resources. The portfolio was acquired at a discount to par and the consideration represented the value at which the acquired mortgages would be taken on to the Company's balance sheet. All lending in the portfolio was secured on property, predominately in London and the South East, with the remainder spread across the UK, and was a similar credit risk profile to the Company's existing mortgage book. The portfolio primarily consisted of variable rate buy-to-let mortgages, 98 per cent. linked to Bank of England base rate. The 2018 Acquisition Agreement contained customary warranties in relation to the mortgages being transferred, and the warranties are subject to customary limitations.

17.5 ***2017 Placing Agreement***

Pursuant to the 2017 Placing Agreement, the Company conducted a non-pre-emptive cash placing of up to 8.02 million new ordinary shares through an accelerated book-build process conducted by the Joint Bookrunners. The placing was conditional, among other things, upon admission of the shares becoming effective and the placing agreement between the Company and the Joint Bookrunners not being terminated in accordance with its terms.

In consideration of their services under the 2017 Placing Agreement, and subject to their obligations under the Placing Agreement not having been terminated, the Company agreed to pay to the Joint Bookrunners a base commission of 0.85 per cent. of the aggregate value of certain of the new shares at the issue price (in accordance with their agreed proportions) and, at the absolute discretion of the Company, a further commission of up to 0.25 per cent.. The Company also paid (irrespective of whether admission occurred) certain of the fees, costs and expenses of, or in connection with, the placing.

The Company gave certain customary representations and warranties to the Joint Bookrunners as to the accuracy of the information provided and in relation to other matters relating to the Group and its business. In addition, the Company gave customary indemnities to the Joint Bookrunners and certain persons connected with each of them. The Company also provided certain customary undertakings to the Joint Bookrunners for the period following admission, including an undertaking (subject to certain exemptions) not to offer, issue or grant any rights over any Shares or related securities for a period ending 180 days from the date of the admission.

17.6 ***2017 Acquisition Agreement***

Pursuant to the terms of the 2017 Acquisition Agreement, the Company purchased a portfolio of UK mortgages from Cerberus European Residential Holdings B.V. The consideration for the purchase was £596.7 million, which was financed using cash from existing resources. The portfolio was acquired at a discount to par and the consideration represented the value at which the acquired mortgages would be taken on to the Company's balance sheet. All lending in the portfolio was secured on property, well diversified across the UK, and had a similar credit risk profile to the

Company's existing mortgage book. The portfolio consisted of approximately 92 per cent. buy-to-let mortgages, with the remainder being owner occupied. The portfolio had a weighted average seasoning of approximately 10 years and the weighted average loan to value was approximately 70 per cent., with an expected pay rate of approximately 1.6 per cent. principally linked to the Bank of England base rate. The 2017 Acquisition Agreement contains customary warranties in relation to the mortgages being transferred and the warranties are subject to customary limitations.

17.7 ***C&I Fund Agreement***

The BCR announced on 22 February 2019 that it had awarded the Company a grant of £120 million (the "**Funding Amount**") as a Pool A applicant to the C&I Fund. BCR and the Company entered into the Capability and Innovation Fund Agreement (the "**C&I Fund Agreement**") on 1 April 2019 pursuant to which BCR agreed to transfer the Funding Amount to the Company.

The C&I Fund is a UK scheme designed as part of the measures agreed between the UK Government and the European Commission following the 2008 financial crisis to encourage competition in the SME banking market.

Pursuant to the terms of the C&I Fund Agreement, the Company has provided an undertaking that the Funding Amount will be used only for the following purposes in connection with the expansion of the Company's UK SME business: (i) development of systems and/or infrastructure; (ii) recruitment and payment of employees; (iii) marketing of products; and (iv) acquisition or leasing of premises, or for any other purpose consistent with the overarching principles of the C&I Fund (being the improvement of UK SME customer outcomes and/or the expansion of business capacity, product offerings and target markets in order to improve the applicant's UK SME offerings).

Under the terms of the C&I Fund Agreement, the Company has agreed to provide certain quarterly and other updates to and consult with BCR on the utilisation of the Funding Amount and developments in the Company's UK SME business, including details of the Company's SME business volumes. In addition, the Company has agreed to meet with BCR as soon as reasonably practicable after the date six months from the date of the C&I Fund Agreement to report on and discuss the Company's business case in respect of the C&I Fund and consider any changes to the business case which may be necessary or desirable. The Company has also given certain warranties to the BCR in relation to the Company and the business case provided in respect of the C&I Fund, as well as indemnified the BCR and certain persons connected with it for losses relating to the C&I Fund Agreement (subject to a total aggregate liability of the Funding Amount).

Where the Company is unable to use the Funding Amount in accordance with its approved business case, BCR may request repayment (in full or part) of the Funding Amount, together with interest. Where a material breach of the C&I Fund Agreement is determined by BCR to have occurred (including the Funding Amount being used for a prohibited purpose), BCR may require the Company to remedy such breach within three months or, if not capable of remedy, request repayment (in full or part) of the Funding Amount together with interest. In addition, the Company has agreed that if there is a change of control such that the Company's parent undertaking or another subsidiary undertaking of such parent undertaking is a bank with an SME market share of more than 14 per cent., the Company shall return to BCR any part of the Funding Amount not spent at the date such change of control transaction is announced.

18 Related Party Transactions

18.1 As at 16 May 2019 (being the latest practicable date prior to publication of this document), there were no contracts or arrangements subsisting at the date of this document in which a Director is materially interested and which is significant in relation to the business of the Group.

18.2 Other than as set out below and disclosed in the financial information incorporated by reference into this document for the years ended 31 December 2016 (see page 106, note 27 to the 2016 Annual Report and Accounts), 31 December 2017 (see page 124, note 26 to the 2017 Annual Report and Accounts) and 31 December 2018 (see page 155, note 28 to the 2018 Annual Report and Accounts), there were no related party transactions entered into by members of the Group during the years ended 31 December 2016, 2017 and 2018 and during the period between 1 January 2019 and 16 May 2019 (being the latest practicable date prior to the publication of this document).

18.3 InterArch, a firm which is owned by Shirley Hill, the wife of Metro Bank's Chairman, Vernon W. Hill, II, provides architecture, design, creative and brand services to the Company. 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 arrangements with InterArch are subject to an annual review by the Audit Committee using benchmarking reviews conducted by independent third parties (including a "big four" professional services firm and the largest independent global marketing audit firm). For the Company's financial year ended 31 December 2018, having reviewed the output from the independent audit of the arrangements, the Audit Committee has concluded that the arrangements 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. Since 2010, InterArch has provided architectural, design and creative services, creating the iconic Metro Bank brand and stores. Metro Bank announced in the 2018 Annual Report and Accounts it would run a process in 2019 to identify an additional alternative supplier of architecture services. This process has begun and the Company intends to transition both architectural design as well as creative and branding services to alternative suppliers. InterArch will work with Metro Bank to ensure a smooth operational transition by the end of 2020.

19 Litigation and Arbitration Proceedings

19.1 Save as disclosed in this paragraph 19 there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the previous 12 months which may have, or have had in the recent past, significant effects on the Company or the Group's financial position or profitability.

19.2 Arkeyo LLC ("**Arkeyo**"), a software company based in the United States, filed a civil suit against the Company in June 2017 in the United States District Court for the Eastern District of Pennsylvania, alleging, among other matters, that the Company misappropriated certain of Arkeyo's trade secret technology relating to money counting machines (i.e., Metro Bank's Magic Money Machines). Arkeyo has sought damages in respect of a number of claims and has attempted to serve the US proceedings on the Company in the United Kingdom. The value of the claim is expected to be in excess of US$75,000 (which represents the minimum amount that must be claimed for the relevant U.S. court to adjudicate the matter), but this has not yet been specified by the claimant in the associated proceedings. Metro Bank believes Arkeyo's claims are without merit. Metro Bank is vigorously defending the claims and intends to challenge jurisdiction, venue, service and avail of other procedural grounds for dismissal of the suit. The Court has granted an extension to the Company to file its motion until 17 May 2019.

19.3 On 26 February 2019, Metro Bank received notification that the PRA and FCA intend to independently investigate the circumstances and events that led to the Company's adjustment of its RWAs in the amount of £900 million. These investigations remain ongoing. For further details, please see page 21 of this document.

20 Working Capital

The Company is of the opinion that, taking into account the net proceeds of the Placing, the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of this document.

21 No Significant Change

There has been no significant change in the financial or trading position of the Group since 31 March 2019, the date to which the Group's latest unaudited consolidated financial information was published.

22 Consents

PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of its accountant's report on the unaudited pro forma financial information in the form and context in which it is included in Part IX "*Unaudited Pro Forma Financial Information*" of this document and has authorised the contents of the part of this document which comprises its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the SEC under Section 7 of the US Securities Act. PricewaterhouseCoopers LLP has not filed and will not be required to file a consent under Section 7 of the US Securities Act.

RBC Europe Limited, which is authorised in the United Kingdom by the FCA and regulated in the United Kingdom by the PRA and the FCA, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.

Jefferies International Limited, which is authorised and regulated in the United Kingdom by the FCA, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.

Keefe Bruyette & Woods (acting through Stifel Nicolaus Europe Limited), which is authorised and regulated in the United Kingdom by the FCA, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.

23 Miscellaneous

23.1 The total fees, costs and expenses payable by the Company in connection with the Placing are estimated to amount to approximately £13 million (including VAT).

23.2 Each New Share is expected to be issued at a premium of 499.9999 pence to its nominal value of 0.0001 pence.

23.3 Where information included in this document has been sourced from a third party, Metro Bank confirms that the information has been accurately reproduced and, as far as Metro Bank is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this document, the source of such information has been identified wherever it appears.

24 Documents Available for Inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to completion of the Placing at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

(a) the Articles of Association;

(b) the consent letters referred to in paragraph 22 above;

(c) the unaudited pro forma financial information of the Group and the report from PwC thereon contained in Part IX "*Unaudited Pro Forma Financial Information*" of this document;

(d) the information incorporated by reference into this document, as described in Part XII "*Information Incorporated by Reference*" of this document; and

(e) this document.

Dated: 17 May 2019

PART XII

INFORMATION INCORPORATED BY REFERENCE

The following documentation, which was sent to Shareholders at the relevant time and/or is available as described below, contains information that is relevant to the Placing:

1 The 2018, 2017 and 2016 Annual Report and Accounts and Q1 Trading Update 2019

These contain the audited consolidated financial statements of Metro Bank as of and for the financial years ended 31 December 2018, 2017 and 2016, prepared in accordance with IFRS, together with audit reports in respect of each such year, as well as the unaudited consolidated financial information of Metro Bank as of and for the three months ended 31 March 2019 and 31 March 2018, prepared in accordance with IFRS.

2 Other

The table below sets out the various sections of the documents referred to above which are incorporated by reference into this document, so as to provide the information required pursuant to Annex I and Annex III to the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of the Company and of the New Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company and of the Group and of the rights attaching to the New Shares:

Reference document	*Information incorporated by reference*	*Page number(s) in reference document*
Unaudited Q1 Trading Update 2019	31 March 2019 and 31 March 2018 unaudited consolidated statement of comprehensive income	7
	31 March 2019 unaudited consolidated balance sheet	8
	31 March 2019 and 31 March 2018 unaudited consolidated cash flow statements	8
2018 Annual Report and Accounts	Remuneration Committee Report	81
	Directors' Remuneration Policy in brief	85
	Single total figure of remuneration – Executive Directors (audited)	87
	Non-Executive Directors' remuneration	93
	Independent auditors' report	98-104
	Consolidated income statement	105
	Consolidated statement of comprehensive income	105
	Consolidated balance sheet	106
	Consolidated statement of changes in equity	107
	Consolidated cash flow statements	108
	Notes to the consolidated financial statements	112
	Principal operating subsidiaries and business units	158
2017 Annual Report and Accounts	Independent auditors' report	80
	Consolidated statement of comprehensive income	87
	Consolidated balance sheet	88
	Consolidated statement of changes in equity	89
	Consolidated cash flow statements	90
	Notes to consolidated financial statements	94
2016 Annual Report and Accounts	Independent auditors' report	68
	Consolidated income statement	74
	Consolidated statement of comprehensive income	74
	Consolidated balance sheet	75
	Consolidated statement of changes in equity	76
	Consolidated cash flow statements	77
	Notes to the consolidated financial statements	81-108

Parts of the documents from which the information incorporated by reference have been incorporated are not set out above because they are either not relevant or are covered elsewhere in this document.

Where the information incorporated by reference makes reference to other documents, such other documents are not incorporated into, and do not form part of, this document.

PART XIII

DEFINITIONS

2016 Annual Report and Accounts	the annual report and accounts prepared by the Company for the financial year ended 31 December 2016
2017 Acquisition Agreement	the acquisition agreement between the Company and Cerberus European Residential Holdings B.V. dated 2 June 2017
2017 Annual Report and Accounts	the annual report and accounts prepared by the Company for the financial year ended 31 December 2017
2017 Placing Agreement	the placing agreement between the Company and the Joint Bookrunners dated 25 July 2017
2018 Acquisition Agreement	the acquisition agreement between the Company, CERH RSMC Sub B.V. and Capital Home Loans Limited dated 23 February 2018
2018 Annual Report and Accounts	the annual report and accounts prepared by the Company for the financial year ended 31 December 2018
2018 Placing Agreement	the placing agreement between the Company and the Joint Bookrunners dated 24 July 2018
Admission	admission of the New Shares to (a) the Official List and (b) trading on the London Stock Exchange's main market for listed securities
AGM	the Annual General Meeting of the Company to be held at 1.30 p.m. on 21 May 2019
AIRB	the advanced internal ratings-based approach
Arkeyo	Arkeyo LLC
Articles or **Articles of Association**	the articles of association of the Company, which are described in paragraph 5 of Part XI "*Additional Information*" of this document
Banking Act	the Banking Act 2009
BCR	the Banking Competition Remedies Limited
Brexit	the UK's planned withdrawal from the European Union
BRRD	the Banking Recovery and Resolution Directive
Business Day	a day (other than a Saturday or Sunday) on which banks are open for general business in London
CET1 ratio	Common Equity Tier 1 ratio
C&I Fund	the Capability and Innovation fund
CCSS	the CREST Courier and Sorting Service established by Euroclear to facilitate, amongst other things, the deposit and withdrawal of securities
certificated or **in certificated form**	a share or other security which is not in uncertificated form (that is, not in CREST)

Chairman	the chairman of the Company, Vernon W. Hill, II
Closing Price	the closing, middle market quotation of an Existing Share, as published in the Daily Official List
CMA	the Competition and Markets Authority
Companies Act	Companies Act 2006
Company or **Metro Bank**	Metro Bank PLC, a public limited company incorporated under the laws of England and Wales
CONC	the Consumer Credit sourcebook
Corporate Governance Code	the UK Corporate Governance Code (April 2018 edition) produced by the Financial Reporting Council
CRD IV	the PRA Rulebook and other PRA publications) and the Capital Requirements Regulation
CREST	the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear is the operator (as defined in the CREST Regulations)
CREST Manual	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure, CREST Glossary of Terms and CREST Terms and Conditions (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since)
CREST member	a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations)
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
CREST sponsor	a CREST participant admitted to CREST as a CREST sponsor
CREST sponsored member	a CREST member admitted to CREST as a sponsored member
Deferred Variable Reward Plan	the Deferred Variable Reward Plan 2016 operated by the Company
Directors or **Board**	the Executive Directors and Non-Executive Directors as at the date of this document
Disclosure Guidance and Transparency Rules	the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority
DTV Ratio	debt-to-value ratio, calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral
EEA	the European Economic Area
Enlarged Share Capital	the expected issued ordinary share capital of Metro Bank immediately following the issue of the New Shares
EU	the European Union

EU DGSD	the EU Deposit Guarantee Scheme Directive
Euroclear	Euroclear UK & Ireland Limited
Exchange Act	United States Exchange Act (1934), as amended
Excluded Territories	the Commonwealth of Australia, its territories and possessions, Japan and the Republic of South Africa and any other jurisdiction where the extension into or availability of the Placing would breach any applicable law
Executive Directors	the executive directors of the Company as at the date of this document
Existing Shares	the Shares in issue immediately preceding the issue of the New Shares
Financial Conduct Authority or **FCA**	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
Placing	the placing of the New Shares, as described in this document
FLS	the Funding for Lending scheme
Form of Proxy	the form of proxy enclosed with this document for use in connection with the General Meeting
FOS	the Financial Ombudsman Service
FSCS	the Financial Services Compensation Scheme
FSMA	the Financial Services and Markets Act 2000, as amended
GDPR	the General Data Protection Regulation
General Meeting	the general meeting of the Company for the purposes of seeking approval to undertake the Placing to be held at 3.00 p.m. on 3 June 2019 at One Southampton Row, London WC1B 5HA, notice of which is set out on pages 185 to 187 (inclusive) of this document
Group	the Company and its subsidiary undertakings and, where the context requires, its associated undertakings
Historical Financial Information	the audited consolidated financial statements of the Company included in the 2018, 2017 and 2016 Annual Report and Accounts, together with the audit opinions thereon, as set out in Part V "*Historical Financial Information*" and Part X "*Taxation*" of this document
HMRC	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards as adopted by the European Union
InterArch	InterArch, Inc.
ISIN	International Securities Identification Number
Issue Price	500 pence per New Share
Jefferies	Jefferies International Limited

Joint Bookrunners	Jefferies, KBW and RBC
Joint Global Coordinators	RBC and Jefferies
KBW	Keefe, Bruyette & Woods (acting through Stifel Nicolaus Europe Limited)
Leverage Ratio	total common equity tier 1 resources to total exposures
Listing Rules	the listing rules of the Financial Conduct Authority
LCR	the Liquidity Coverage Ratio
LTD Ratio	the ratio of total loans and advances to customers to deposits from customers
London Stock Exchange	London Stock Exchange plc
Long Term Reward Plan	the Long Term Reward Plan 2014 operated by the Company
MAR	the Market Abuse Regulation (EU) No 596/2014
MCD	the Mortgage Credit Directive
Member States	The member states of the EU
MMR	the Mortgage Market Review
MREL	the minimum requirement for own funds and eligible liabilities
Money Laundering Regulations	Money Laundering Regulations 2007 (SI 2007/2157)
New Shares	the 75,000,000 Shares to be allotted and issued by the Company pursuant to the Placing
NIM	net interest margin
Non-Executive Directors	the non-executive directors of the Company as at the date of this document
Notice of General Meeting	the notice of General Meeting set out in this document
OFAC	Office of Foreign Assets Control
Official List	the Official List of the FCA
Placee	certain new and existing Shareholders who have agreed to subscribe for New Shares pursuant to the Placing
Placing Agreement	the placing agreement entered into by the Company and the Joint Bookrunners on 16 May 2019 in connection with the Placing
Placing Announcement	means the announcement of Placing made on 16 May 2019
Placing Proof	Means the proof of this Prospectus made available to prospective Placees
PRA	the UK Prudential Regulation Authority
Prospectus or **this document**	this prospectus and circular issued by the Company in respect of the Placing, together with any supplements or amendments thereto

Prospectus Directive	the EU Prospectus Directive (2003/71/EC) (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in the Relevant Member State, and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU)
Prospectus Rules	the Prospectus Rules of the Financial Conduct Authority
Q1 Trading Update 2019	the announcement dated 1 May 2019 of the unaudited consolidated financial information of the Company as of and for the three months ended 31 March 2019 and 31 March 2018
RBC	RBC Europe Limited
Reference Date	16 May 2019, being the latest practicable date before the date of this document
Registrar	Equiniti Limited
Regulation S	Regulation S under the Securities Act
Regulatory Information Service	a regulatory information service that is approved by the FCA and that is on the list of regulatory information service providers maintained by the FCA
Reporting Accountants	PricewaterhouseCoopers LLP
RoE	return-on-equity
SDRT	Stamp Duty Reserve Tax
SEC	the United States Securities and Exchange Commission
Securities Act	the U.S. Securities Act of 1933, as amended
SEDOL	Stock Exchange Daily Official List
Senior Managers	the senior managers of the Company as at the date of this document
Share	an ordinary share of 0.0001 pence in the capital of the Company having the rights set out in the Articles, as described in paragraph 5 of Part XI "*Additional Information*" of this document
Shareholders	holders of Shares
Share Schemes	the Deferred Variable Reward Plan and the Long-Term Reward Plan
SMEs	small- and medium-sized enterprises
SSAS	Small Self-Administered Scheme
Standby Underwriting Agreement	the Standby Underwriting Agreement between the Company and the Joint Bookrunners dated 26 February 2019
Temenos	Temenos Group AG
TFS	the Bank of England's Term Funding Scheme

Transaction Resolutions	the Transaction Resolutions to be proposed at the General Meeting in connection with the Placing, notice of which is set out on pages 185 to 187 (inclusive) of this document
UK or **United Kingdom**	the United Kingdom of Great Britain and Northern Ireland
UK Takeover Code	UK City Code on Takeovers and Mergers
uncertificated or **in uncertificated form**	recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
United States or **U.S.**	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
VAT	value added tax

NOTICE OF GENERAL MEETING

Metro Bank PLC

Notice is hereby given that a general meeting of Metro Bank PLC (the "**Company**") will be held at 3.00 p.m. on 3 June 2019 at One Southampton Row, London WC1B 5HA (the "**General Meeting**") for the purpose of considering and, if thought fit, passing the following resolutions, which, in the case of Resolutions 1 and 2 below, will be proposed as ordinary resolutions and, in the case of Resolution 3 below, will be proposed as a special resolution:

ORDINARY RESOLUTIONS

That:

1. the terms of the proposed issue by way of a placing of 75,000,000 new ordinary shares of 0.0001 pence each in the capital of the Company at an issue price of 500 pence per new ordinary share (the "**Placing**") (which is a discount of 6.8 per cent. to the closing price of 536.5 pence per share on the day of announcement of the Placing), as described in the combined circular and prospectus of which the Notice of this General Meeting forms part (the "**Prospectus**"), be and are hereby approved and the board of directors of the Company be and are hereby directed to implement the Placing on the basis described in the Prospectus and be and are generally and unconditionally authorised to exercise all powers of the Company as necessary in connection with the implementation of the Placing; and

2. subject to and conditional upon Resolution 1 above being duly passed and admission to the premium listing segment of the Official List and to trading on the London Stock Exchange plc's main market for listed securities, respectively, of the new ordinary shares of 0.0001 pence each to be issued by the Company in connection with the Placing, and in addition to all existing authorities, the directors of the Company be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £75 pursuant to or in connection with the Placing, such authority to apply until the conclusion of the annual general meeting of the Company to be held in 2020, but, in each case, so that the Company may, before such expiry, make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority given by this resolution has expired.

SPECIAL RESOLUTION

3. That, subject to and conditional upon Resolutions 1 and 2 being duly passed, and in addition to all existing powers, the board of directors be given power pursuant to section 571 of the Companies Act 2006 to allot equity securities (as defined in section 560(1) of the Companies Act 2006) for cash pursuant to the authority conferred by Resolution 2 above, as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, such power to be limited to the allotment of equity securities pursuant to the authority granted by Resolution 2 up to an aggregate nominal amount of £75, such power to apply until the conclusion of the annual general meeting of the Company to be held in 2020, but so that the Company may, before such expiry, make offers and enter into agreements which would, or might, require equity securities to be allotted after the power given by this resolution has expired.

By order of the board of directors of the Company:

David Arden
Company Secretary
Metro Bank PLC

17 May 2019

Notes:

Proxy appointment

1. A shareholder is entitled to appoint another person as his/her proxy to exercise all or any of his/her rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder.

2. A form of proxy is enclosed. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

3. To appoint a proxy, you must return the completed and signed form of proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), either (a) to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, or (b) by email to proxyvotes@equiniti.com, in each case so as to be received no later than 3.00 p.m. on 30 May 2019. CREST members who wish to appoint a proxy through the CREST electronic proxy appointment services may do so. See notes 14 to 17 (inclusive) to below.

4. ShareBuy participants are unable to attend the meeting unless they hold shares in their own name. ShareBuy participants will be sent a Form of Direction and are requested to:

   (a) complete and sign the Form of Direction in order to instruct Equiniti Share Plan Trustees Limited how you would like them to vote on your behalf. Completed Forms of Direction should be returned to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and in any event so as to be received by Equiniti Limited no later than 3.00 p.m. on 29 May 2019; or

   (b) register their votes electronically via the internet at www.sharevote.co.uk. Please note that the personalised numbers printed at the top of the Form of Direction will be required to register your vote online and instructions must be received by no later than 3.00 p.m. on 29 May 2019.

   If you are a ShareBuy participant and you also own shares in your own right, then you will need to complete both the Form of Direction and the Form of Proxy and submit them both, either online or by post.

Nominated Persons

5. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ("**Nominated Persons**"). Nominated Persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

Information about shares and voting

6. At the meeting, votes will be taken by poll rather than on a show of hands. All votes cast at the meeting will be added to those that were validly lodged with the registrars prior to the meeting.

7. Shareholders are entitled to attend and vote at general meetings of the Company. The total number of issued ordinary shares in the Company on 16 May 2019 (being the latest practicable date prior to the date of this document) is 97,420,458, carrying one vote each on a poll. Therefore, the total number of votes exercisable as at 16 May 2019 is 97,420,458. There are no shares held in treasury.

Right to attend and vote and proxies

8. Entitlement to attend and vote at the meeting, and the number of votes which may be cast at the meeting, will be determined by reference to the Company's register of members at 6.30 p.m. on 30 May 2019 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting (as the case may be). In each case, changes to the register of members after such time will be disregarded.

9. In the case of joint shareholders, where more than one of the joint shareholders purports to appoint a proxy, only the appointment submitted by the most senior shareholder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members, the first-named being the most senior.

10. Shareholders may change their proxy instructions by submitting a new proxy appointment using the methods set out or referred to in these notes. The cut-off times for receipt of proxy appointments set out in these notes also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where a shareholder has appointed a proxy using the hard copy proxy form and would like to change the instructions using another hard copy proxy form, it should contact Equiniti Limited on proxyvotes@equiniti.com. If more than one valid proxy appointment is submitted, the appointment received last before the latest time for the receipt of proxies will take precedence.

11. In order to revoke a proxy instruction, a shareholder will need to inform the Company by sending a signed hard copy notice clearly stating its intention to revoke its proxy appointment to Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. In the case of a shareholder which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    The revocation notice must be received by no later than 2.00 p.m. on 3 June 2019. If a shareholder attempts to revoke its proxy appointment but the revocation is received after the time specified then the original proxy appointment will remain valid.

Termination of proxy appointments made through CREST must be made in accordance with the procedures described in the CREST Manual.

Venue arrangements

12. To facilitate entry to the meeting, members are requested to bring with them the admission card which is attached to the proxy card.

13. Mobile phones may not be used at the meeting and cameras and recording equipment are not allowed in the meeting.

CREST members

14. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting (and any adjournment of the meeting) by following the procedures described in the CREST Manual. The CREST Manual can be found at www.euroclear.com. CREST personal members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

15. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST). The message (regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by Equiniti Limited (ID RA19) by no later than 3.00 p.m. on 30 May 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to a proxy appointed through CREST should be communicated to him by other means.

16. CREST members (and, where applicable, their CREST sponsors or voting service providers) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

17. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate representatives

18. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

Questions

19. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Website information

20. A copy of this notice and other information required by section 311A of the Companies Act 2006 can be found at www.metrobankonline.co.uk.

Use of electronic address

21. Members may not use any electronic address provided in either this notice of meeting or any related documents (including the enclosed Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.