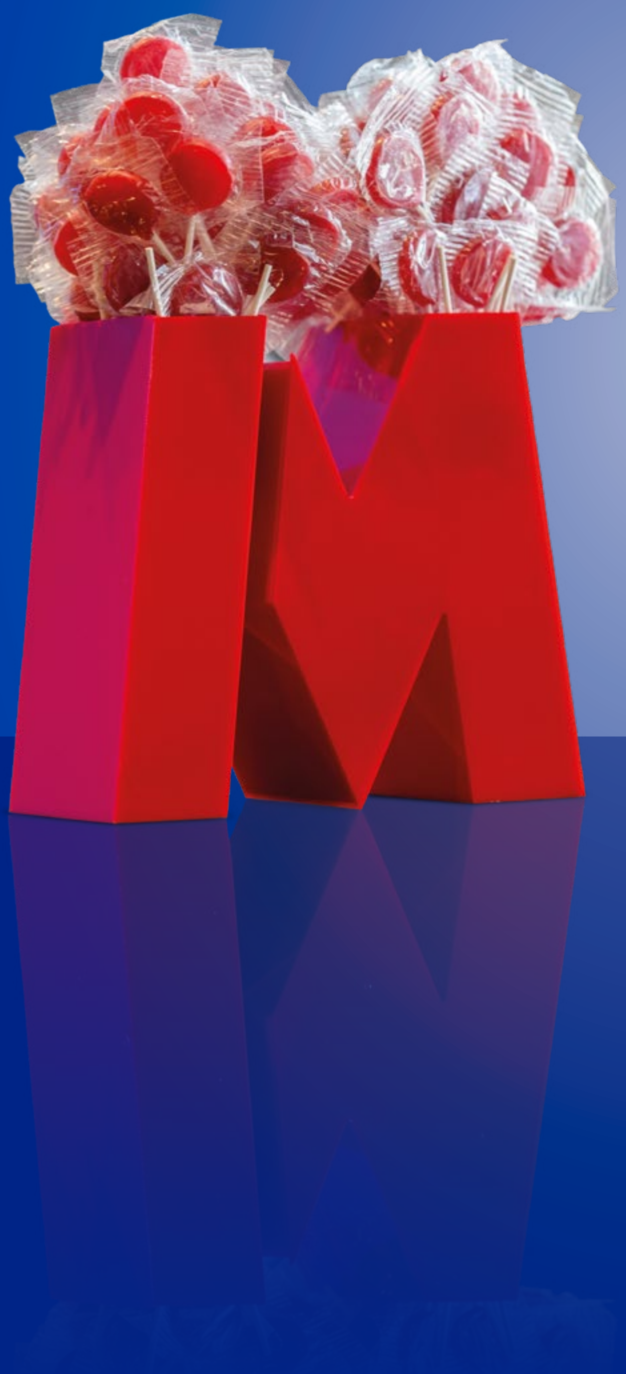
ANNUAL REPORT AND ACCOUNTS 2018

METRO BANK PLC

METRO BANK THE REVOLUTION IN BRITISH BANKING



Strategic report

Governance

Financial statements

HIGHLIGHTS

FINANCIAL

	2014	2015	2016	2017	2018	Year-on-year % increase
Assets	£3.7b	£6.1b	£10.1b	£16.4b	**£21.6b**	+32%
Deposits from customers	£2.9b	£5.1b	£8.0b	£11.7b	**£15.7b**	+34%
Net average deposits per store per month	£4.9m	£5.3m	£5.7m	£6.3m	**£5.9m**	-6%
Loans and advances to customers	£1.6b	£3.5b	£5.9b	£9.6b	**£14.2b**	+48%
Underlying profit/(loss) before tax[1]	£(48.9)m	£(46.6)m	£(11.7)m	£20.8m	**£50.0m**	+140%
Statutory profit/(loss) before tax	£(48.6)m	£(56.8)m	£(17.2)m	£18.7m	**£40.6m**	+117%

Underlying profit before tax[1]

£50.0m

Up 140% from £20.8 million in 2017

Statutory profit before tax

£40.6m

Up 117% from £18.7 million in 2017

Loan to deposit ratio

91%

Increased from 82% in 2017

STRATEGIC

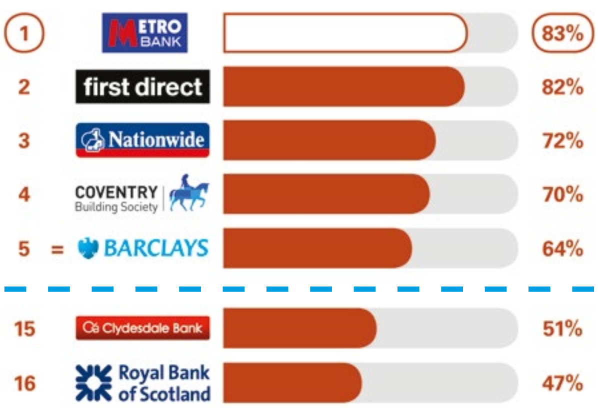
- Record increase in customer accounts from 1,217,000 to 1,620,000
- Came top in the Competition and Markets Authority ('CMA') customer service results for retail current accounts[2]
- Delivered our promise to provide £1 billion of net lending to small businesses for the second year running
- Completed a £303 million capital raise at market value and inaugural debt issuance of £250 million

OPERATIONAL

- Ten new store openings, bringing the Revolution further west to Bristol and Bath, and to the East Midlands with the opening of our Northampton store. Our 66th store opened in January 2019 in Moorgate, London
- Welcomed 800 colleagues, bringing our total number to over 3,500
- Five star rated mobile app
- Launch of 'Insights' on our app for personal customers – using artificial intelligence to help them better understand how they are using their money

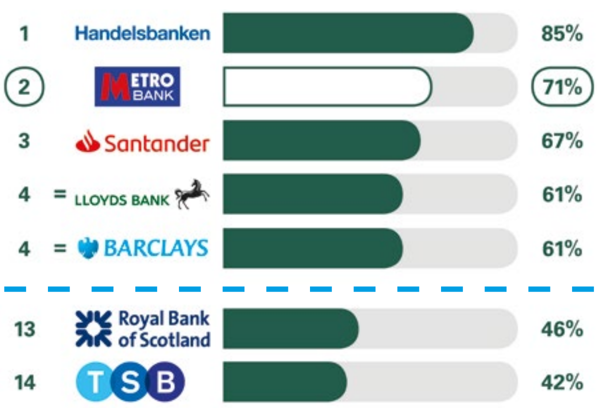
Number one service for personal customers...

Personal Current Accounts Overall Quality of Service



... and well positioned for the top spot in SME

Business Current Accounts Overall Quality of Service



1. Underlying profit/(loss) before tax excludes Listing Share Awards, costs associated with listing, impairment of property, plant and equipment and intangible assets and costs relating to RBS alternative remedies package application. We use this measure to better reflect the ongoing performance of the business. Further details are available on page 165
2. CMA results from February 2019

CHAIRMAN’S STATEMENT

Vernon W. Hill, II, Chairman

Just eight short years after we opened the doors to our first store in central London, we have brought the Revolution to 66 communities, welcomed 1.6 million accounts and created 3,900 jobs. This is a phenomenal achievement from a standing start.

Our success has been built on:

- A differentiated, value-added MODEL
- A pervasive and reinforcing CULTURE
- And FANATICAL EXECUTION which AMAZES our customers and EXCEEDS their expectations.

Our relentless focus on delivering the absolute best in customer service across every channel has been at the heart of our success. Every day we are attracting new customers – FANS – to join our brand, experience our service and they recommend us to their friends.

This unique approach has benefited us again in 2018, and we have delivered another record year. We have delivered this record growth at a continued low cost of risk, which fell to 0.07% (2017: 0.11%).

As we continue to grow, we remain committed to improving and expanding our model and customer experience.

Customer deposits grew

34% to £15.7b

Underlying profit before tax grew

140% to £50.0m

Statutory profit before tax grew

117% to £40.6m

Creating a Revolution presents challenges and opportunities, each of which we embrace as our commitment to our FANS and communities remains our constant goal.

Many thanks to our FANS, colleagues and investors.

Vernon W. Hill, II
Founder and Chairman
10 April 2019

CHIEF EXECUTIVE OFFICER'S STATEMENT

Craig Donaldson, Chief Executive Officer

2018 was another successful year of strong growth for Metro Bank. Despite a challenging operating environment, especially in the fourth quarter, the model continued to go from strength to strength. We've delivered this growth while continuing to make substantial investment in our digital and physical infrastructure and maintaining our unique culture.

I am particularly proud that our achievements were recognised in the CMA customer satisfaction survey that was published in February 2019, with us coming top for personal and second for business banking for overall quality of service. Delivering this exceptional level of customer service while growing our balance sheet by 32% year-on-year is truly impressive.

Our success in securing the top award of £120 million from the Capability and Innovation ('C&I') Fund as part of the RBS Alternative Remedies Package is recognition of our commitment to the underserved small and medium enterprise ('SME') banking market. These funds will allow us to build on our plans to bring much needed competition to SME hotspots in the North of England, while also investing in our digital capabilities.

Although the business is performing well, the back half of the year, particularly the fourth quarter, saw us face headwinds from the wider macroeconomic environment and particularly in the form of net interest margin ('NIM') compression, as despite a further base rate rise, yields fell. This is primarily due to excess market liquidity following the introduction of ring fencing for our larger competitors.

Looking forward, we remain committed to our core strategy of creating FANS, attracting low-cost deposits and lending at low risk through our integrated customer experience of 'bricks and clicks' banking. However, we are conscious of the need to adapt to the challenging conditions in the wider economic, commercial and regulatory environment. To that end we are implementing a range of strategic initiatives to deliver the next phase of our growth. Our key objective is to balance growth with profitability and capital efficiency, which means moderating our rate of growth in response to the prevailing margin environment. Furthermore, we will diversify our lending mix to access attractive segments and optimise our consumption of capital. Revenue growth will be accelerated by expanding our fee income through new value-added services, especially for SMEs supported by our C&I award. Finally, we must accelerate our cost efficiency by driving our operating leverage now we are achieving scale throughout the Bank.

Together these initiatives will place us in a better position to continue to deliver high growth in a capital efficient way, and I look forward to reporting on progress.

In January 2019 we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million. Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. On 26 February 2019, we received notification that the PRA and FCA are investigating the circumstances and events that led to the RWA adjustment announced on 23 January 2019. We will cooperate fully will the PRA and FCA.

We are learning the lessons from this and will continue to improve our systems and controls around capital and risk-weighted assets.

Finally, I would like to thank everyone at Metro Bank including our customers, colleagues and shareholders, without whom building the revolution in British banking would not be possible.

Craig Donaldson
Chief Executive Officer
10 April 2019

OUR INTEGRATED APPROACH

Our investment in an integrated approach continues, delivering the best in store, online and app customer experience

ONLINE

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

Best Digital Onboarding strategy
Global Retail Banking Awards 2018

IN STORE

Our stores are open early until late, seven days a week, 362 days a year with friendly colleagues ready to help. They are built around the philosophy of delivering instant fulfilment to customers. Whether that be free coin counting for customers and non-customers alike through to the introduction in 2018 of a 'walk out trading' service to businesses, allowing them to leave our store with their account fully set up and the ability to instantly take electronic payments.

No.1 for 'service in branches' in the February 2019 CMA independent Service Quality Survey

ON THE APP

Our award-winning mobile banking app allows customers to make payments and manage their accounts and cards on the go. This year we've introduced 'Insights'. By looking at a customer's account history, 'Insights' can identify patterns, trends and upcoming payments. It then creates personalised reports and breakdowns to show how a customer is using their money, providing them with more control over their finances.

Five star rating of our app in the App Store

OVER THE PHONE

Our call centres are based in the communities we serve and our friendly colleagues are available 24 hours a day, seven days a week, 365 days a year. We are focused on giving customers a choice of how they interact with us and not forcing them into digital-only channels. Being able to speak to a human day or night remains central to our approach.

Highly commended best current account provider for call centre service

OUR MARKET

An evolving marketplace offering exciting opportunities

Consumer trends

Digital
The trend towards digital banking continues to accelerate, across all segments of the market. Our investment in simple, scalable technology is now a clear advantage as we offer a level of choice and service that others simply cannot match.

This is demonstrated by our online personal current account opening experience, launched at the beginning of 2018. With the help of 'selfie' ID verification, new customers can open a ready-to-use account in less than 10 minutes, with debit cards delivered the next day or available for immediate collection from any of our stores. This market-leading proposition extends our reach throughout the UK and to a significant proportion of customers that now choose to open new accounts online.

Our mobile app is the centrepiece of our digital strategy, now adding over 40,000 customers and exceeding 10 million logins a month. Over 50% of Instant Access Savings Accounts are now opened inside our app. 'Insights' – our AI powered mobile financial assistant – is a first among UK high street banks and helps to simplify customers' financial lives by providing a new level of visibility over their transactions.

Changing landscapes
Fintech is opening up a new world of opportunity, which we are already integrating into our proposition. Our investment in a developer portal, which supports our compliance with the second payment services directive ('PSD2'), makes it easier than ever for fintech start-ups and others to create innovative integrations that offer our customers new convenience and functionality. We expect small businesses to most benefit from the new Open Banking revolution and our investment in market-leading online banking and API platforms positions us extremely well.

Demand for better
Customers are increasingly voting with their feet and initiatives such as the current account switch guarantee scheme are encouraging competition and making it easier for customers to move banks. It has never been so easy for consumers to benefit from the wide variety of choice in the deposit and lending markets. This comes at a time when consumers are wanting more out of their bank. In an age of 'click and collect' seamlessly integrating the digital and physical worlds, people are demanding the same of their financial service needs.

Our integrated approach and capability are aligned to this trend. For example, when one of our FANS has lost their debit card they can block it on our mobile app and walk into store, seven days a week, to print a new one straight away. We are deploying technology in ways that delight customers and offer true instant fulfilment.

Industry trends

Branch closures

Traditional players within the industry continue their programme of branch closures. 2018 saw another series of branch closures announced.

Only ourselves and one other player have bucked this trend through additional openings. We are opening our stores in major centres and therefore even when our network is fully established we will still have a significantly more focused footprint than most of our high street competitors.

Due to our new technology stack we are uniquely able to combine physical and digital banking to unlock the value of our customers in a way other providers in the market cannot. 2018 saw us launch our 'walk out trading' proposition where SMEs can open a new bank account and leave the store with a connected merchant services terminal, allowing them to take card payments on the same day.

Competitive pressures

The UK retail banking space remains highly competitive and despite a further Bank of England base rate rise during 2018 lending yields reduced, driven largely by excess liquidity held by certain organisations.

Additionally, the entrance of a number of new players into the wider deposit market has driven deposit pricing higher. However, our strategy of attracting low-cost deposits, in the form of current accounts continues to give us a structural advantage. In addition our interest rates on savings accounts are less market sensitive as we aim to attract deposits on the basis of service and convenience, rather than price.

Macro trends

Capital and funding

Capital markets towards the end of 2018 were subdued, largely driven by global economic uncertainty and quantitative tightening.

The current capital regime combined with our strong growth means at present we are not capital self-supportive. We successfully completed a £303 million capital raise and a £250 million debt issuance in 2018 to support our growth. Over the coming year we will need to raise further growth funding including up to c.£500 million of MREL qualifying debt.

In addition to raising external capital we are working on ensuring maximum capital efficiency, further details of which can be found in the Finance Review on page 27.

Global uncertainty

2018 saw increasing uncertainty around macroeconomic policies as well as downward revisions to growth estimates, both in the UK and globally. This was driven by several factors including China and US trade tensions, subdued growth in some key Eurozone economies and continued uncertainty surrounding Brexit.

Despite these uncertainties we have successfully delivered significant growth across the Bank. We have achieved this by leveraging the inherent strengths in our business model. A focus on providing unsurpassed levels of personal and business service has seen us capture an increasing percentage of the deposit market, enabling us to grow lending prudently despite increased levels of competition. Lending growth has in turn allowed us to make investments in automation and straight through processing in our back office functions in order to start to reduce the costs and increase the speed with which we are able to deliver new products, services and experiences to customers. It all adds up to a self-reinforcing model that puts creating FANS at the heart of what we do.

Growth of SMEs

Structural changes in the economy combined with more flexible ways of working are leading SMEs to fast become the driving force of growth in the UK. Our unique SME proposition is benefiting from this trend. We have the fastest growing market share of business current accounts ('BCAs') in the UK. From a standing start in 2010, we have now captured 2.1% of the SME market, growing faster than any other bank in the UK at a 31% compound annual growth rate ('CAGR'). In the coming years we will likely be able to surpass 5% of market share threshold (the threshold at which the CMA define a bank as being a credible market competitor).

Our impact is greatest where we have established stores. Our market share in London is 3.2% and growing rapidly. For the 12 months to the end of Q3 2018, we attracted 4% of new BCAs nationally, 5% in the South East and 11% in London. Additionally we attracted 17% of all business based in London that chose to move their accounts. Some 88% of these switchers were from the largest five banks. Our growth is more than just BCAs. We have a 1.7% market share of total SME deposits and captured a 15% share of new SME deposits in 2018.

Find out about our SME offering on pages 18 and 19

BUSINESS MODEL

Creating FANS by generating exceptional customer experiences

INPUTS

Metro Bank brand

86%
brand recognition in London

2018 saw brand awareness at 86% in London and 54% nationally. This, for a company that has never spent a penny on large-scale advertising.

Integrated store network

66
stores

At 66* stores and growing, if we aren't in your area, we will be soon. Our stores are integrated with the latest technology to ensure we are also evolving to meet our customers' needs.

*Including Moorgate which opened in January 2019

Skilled and passionate colleagues

3,900
colleagues

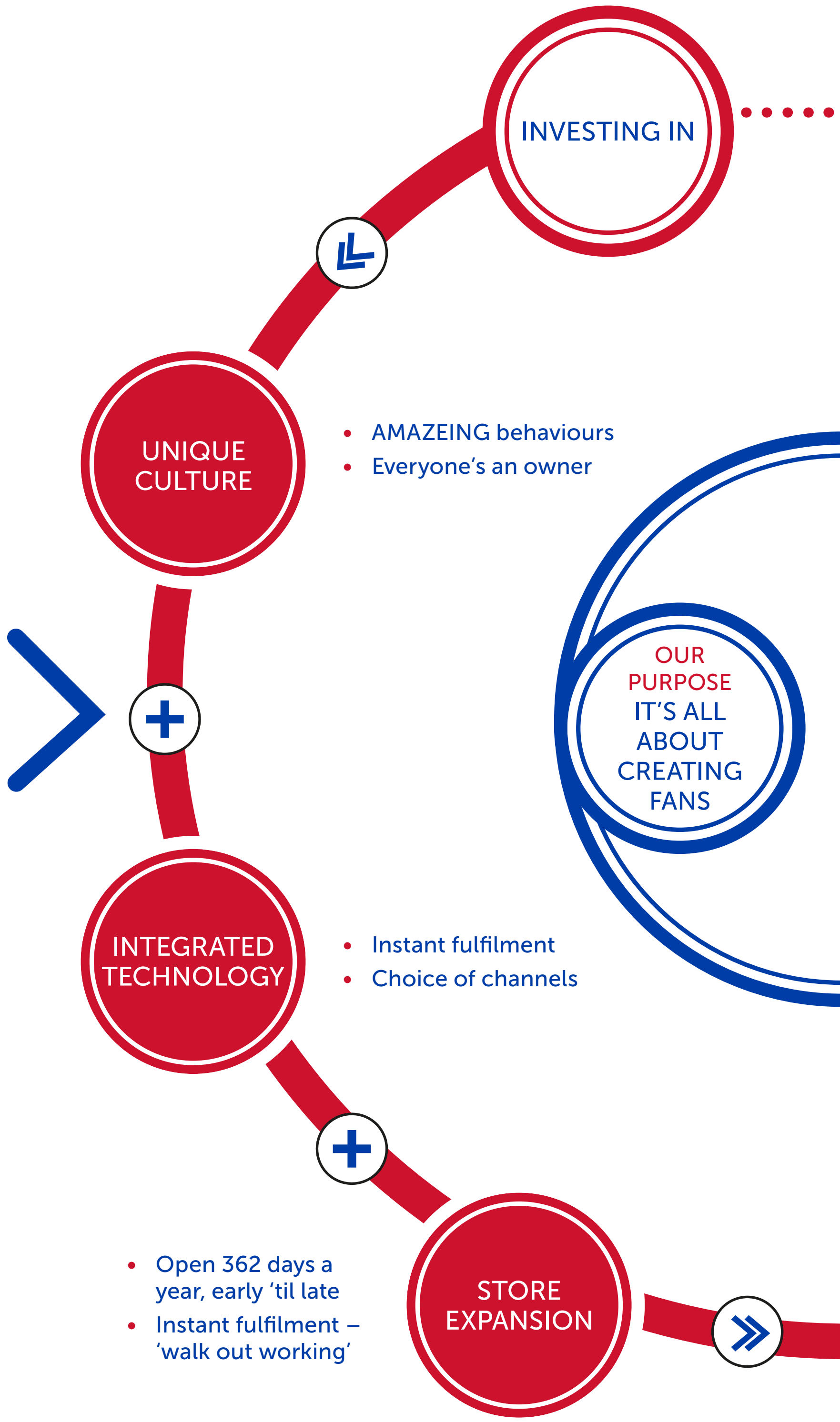
We hire for attitude and train for skill. This approach ensures we have experienced and dedicated colleagues committed to helping us meet our customers' needs.

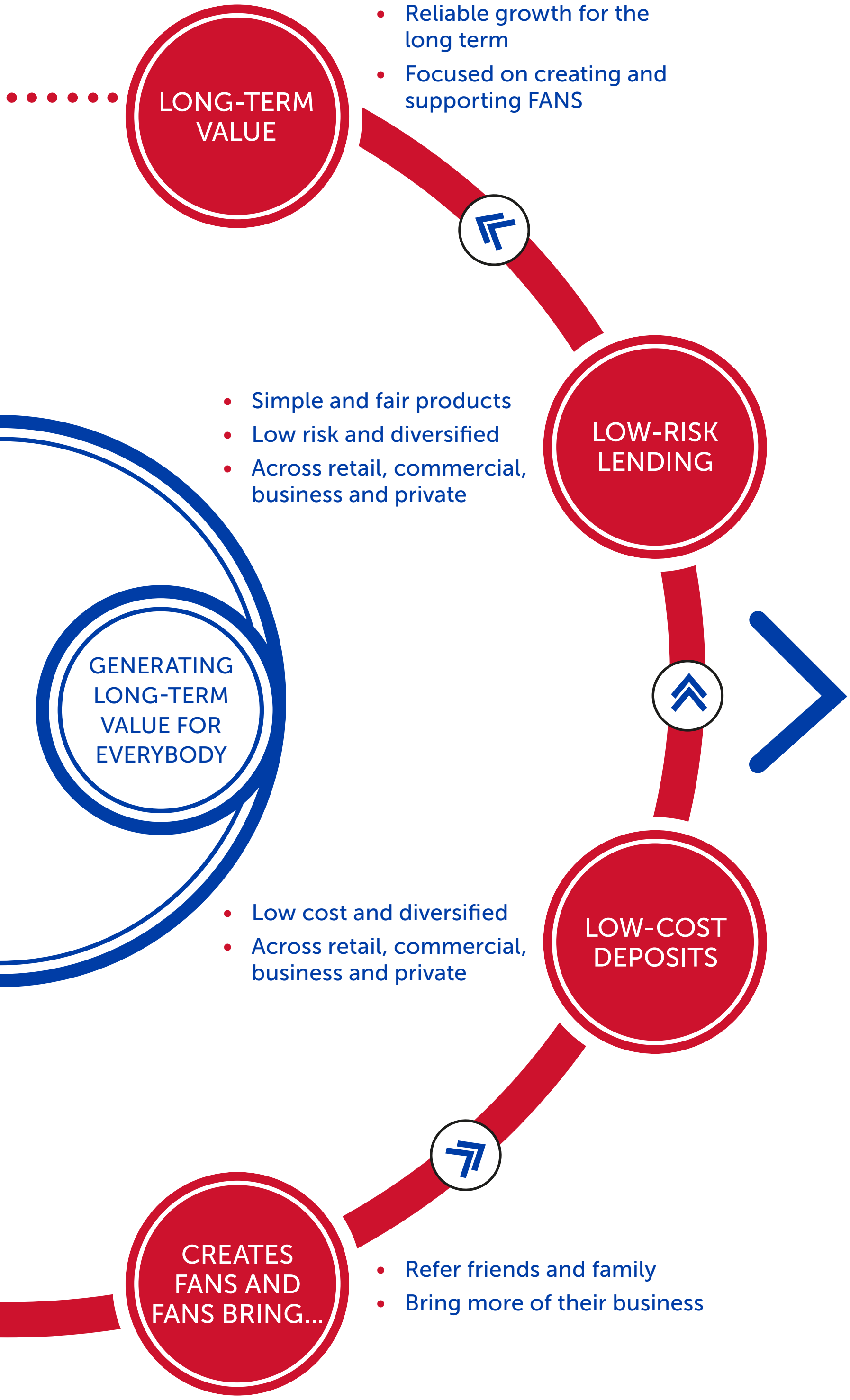
Easily accessible

362
days a year our stores are open

Our stores are open 362 days a year early 'til late and our AMAZE direct call centres and digital banking offerings never sleep. Accounts can be opened in minutes in store or online. Joining the revolution has never been so easy.

Our unique, integrated, disruptive approach to UK banking





OUTPUTS

Profitability

+140%
increase in underlying profit before tax

Our underlying profit increased 140% to £50.0 million, demonstrating that the business model works and delivers increasing profitability as we achieve scale.

Lending

£14.2b
net lending

We delivered a record increase of £4.2 billion in net lending in 2018, doing so at a continued low cost of risk.

Deposits

£15.7b
deposits

Our deposit base remains diverse. At an average cost of deposits of 61bps for 2018, 14bps below the year end base rate, these continue to be won at a low cost.

FANS

No.1
for overall customer service

We are proud to have come top in the latest CMA ranking for overall service quality for our personal accounts*, as well as second for business accounts too.

*February 2019 CMA survey

Accounts

1.6m
customer accounts

With over 1.6 million accounts and growing, we are winning customers, creating FANS and increasing market share in every area we operate in.

STRATEGY

Growing our business profitably by creating FANS

Initiatives

INTEGRATED MODEL

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

Read more on page 12

Progress

We opened ten new stores in 2018, expanding our network to new communities including Southampton, Oxford and Bristol.

We've continued to launch game-changing new technological capability including Current Account Online which went live in January 2018. This allows accounts to be opened in a matter of minutes using 'selfie' identification and verification. It brings the era of 'click and collect' to banking with the option of collecting debit cards and cheque books straight away from any of our stores.

We also launched 'Walk Out Trading' for business customers; this allows instant trading including accepting debit and credit card payments, without having to wait weeks for a point-of-sale machine to arrive.

UNIQUE CULTURE

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

Read more on page 13

During the year we welcomed 800 new colleagues and celebrated 730 promotions as the business grew. We also ranked in the top 25 '2019 best places to work' by Glassdoor, the only bank recognised.

In October we also launched an MSc in digital banking in partnership with Cranfield University. This is the first partnership of its type in the UK and will ensure colleagues from across the organisation have the skills and confidence to be able to continue the banking revolution in the years ahead.

DIVERSIFIED LOW-COST DEPOSITS

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

Read more on page 13

We grew our total deposits by 34% to £15.7 billion at 31 December 2018 (31 December 2017: £11.7 billion).

We continue to enjoy a diversified deposit base with 53% of deposits coming from commercial customers (2017: 53%).

Cost of deposits rose during the year to 0.61% up from a record low of 0.54% in 2017 following another base rate rise. The deposit market has become increasingly competitive following the arrival of new entrants into the marketplace. As 30% of our deposits are from current accounts (2017: 32%), the impact is limited such that our cost of deposits fell to below the Bank of England base rate in the year.

LOW-RISK DIVERSIFIED LENDING

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

Read more on page 13

We grew our total loans by 48% to £14.2 billion at 31 December 2018 (31 December 2017: £9.6 billion). Lending growth continued to be primarily organic but was supplemented by the purchase of a seasoned UK mortgage portfolio in March 2018.

Cost of risk fell to 0.07% (2017: 0.11%) driven by a strong lending portfolio consisting of 67% retail mortgages and 27% well-secured commercial term loans. Our debt to value ('DTV') on retail mortgages is 61% (2017: 60%) and on commercial term loans is 59% (2017: 58%).

We once again delivered £1 billion in net lending to businesses, further supporting the UK economy.

See more on page 31
See more on page 85

KPIs	Evolution of our strategy in 2019	Risk	Remuneration
1.6m (2017: 1.2m) **number of customer accounts** **No.1** (2017: n/a) **Overall quality of service for personal accounts in latest (February 2019) CMA results**	• Open eight new stores including our new store at Moorgate which opened in January • Open two additional stores in the North as part of our successful C&I fund bid • Maintain investment in our digital and physical infrastructure as well as integration between the two to ensure we are leading the market and delivering the needs of new and existing FANS		A Customer accounts (financial) C Customers
96% (2017: 96%) **of colleagues think Metro Bank is a great place to work in our annual voice of the colleague survey**	• Continue to develop colleagues • Expand opportunities outside London • Build upon the success of our apprenticeship programme, including continuing our partnership with Cranfield University	2 Operational 7 Conduct	D People
£5.9m (2017: £6.3m) **deposits per store per month** **0.61%** (2017: 0.54%) **cost of deposits**	• Continue to win business and commercial customers from incumbent players. This includes RBS, from which SMEs will be incentivised to switch from under the Alternative Remedies Package • Continue to attract new deposits through new store openings • Continue to build upon the success of Current Account Online as well as the continued performance of the existing network • Deepen the relationships with our existing customers, servicing more of their financial service needs and attracting associated fees	3 Funding and liquidity 4 Market 5 Financial crime 6 Regulatory	A Deposit performance (financial)
2.67% (2017: 2.69%) **customer net interest margin plus fees** **0.15%** (2017: 0.27%) **non-performing loans ratio** **0.07%** (2017: 0.11%) **cost of risk**	• Continue to focus on low-risk mortgages which are both cost efficient and deliver a higher return on equity • Use C&I funding to broaden lending to SME and commercial trading businesses • Grow unsecured lending business as the risk-reward trade off improves	1 Credit 4 Market 6 Regulatory 8 Model	A Lending performance (financial) B Risk

OPERATING REVIEW

Putting our strategy into action

Our strategy
We are a high-growth retailer delivering best-in-class banking. We do this by:

- creating FANS with our integrated customer experience model;
- fostering our unique culture;
- growing our low-cost deposits; and
- offering low-risk and diversified lending.

Over the course of 2018 we have continued to deliver progress in all of these areas, despite a challenging operating environment in the second half of the year. As well as delivering year-on-year balance sheet growth of 32% we have been rated first for overall quality of service for personal banking in the latest CMA survey and also awarded £120 million from the Capability and Innovation Fund of the RBS Alternative Remedies Package, which will accelerate our SME offering.

Read more about our strategy on pages 10 and 11.

A truly integrated model
2018 has seen us deliver record investment in both our digital and physical offerings, as well as the integration of the two, in order to make our customers' lives easier.

As well as the rollout of 'Current Account Online' opening for our retail customers we also launched our 'Walk Out Trading' service for business accounts. 'Walk Out Trading' is revolutionising SME banking, allowing businesses to receive a card terminal in store, so that they can accept debit and credit card payments as soon as they open their account.

We understand that running a business can be time pressured enough and, therefore, we aim to make our business banking services as convenient and streamlined as possible. Business Current Accounts can be set up on the spot in store without an appointment in a matter of hours, rather than days or weeks. It is services like this that are leading us to win 15% of business switchers in the London area.

During the year, we continued to expand our store network by opening ten new stores. This included the opening of a flagship store in Bristol. Alongside the banking hall, the site also houses a Metro Bank University site as well as space for a back office team to support our growth in the West Country and Wales in the years ahead.

In January, we opened our 66th store in Moorgate in London and have a further seven stores in build. We will open in new locations and markets including Enfield, Cardiff and the Midlands during 2019. The £120 million award from the Capability and Innovation Fund will accelerate the pace of our growth into the North of England.

Our digital capabilities also continue to expand at pace and in October we launched our artificial intelligence tool – 'Insights' – on our mobile app. 'Insights' can identify patterns, trends and upcoming payments in customers' accounts and then create personalised reports and analysis to allow them to better understand how they are using their money. The feedback we have received in the few months this has been live has been phenomenal. Looking ahead we have plenty more exciting projects under development to continue to improve our integrated customers' experience across 'bricks and clicks'.

Culture is at the heart of what we do

Out of everything we do at Metro Bank, our culture is at our heart. Creating a truly differentiated approach to banking cannot be achieved without the right people and attitude.

During the year we welcomed over 800 new colleagues to the Bank. In addition, we continued to develop our colleagues, promoting more than 730 to roles with greater responsibility. In October, we launched an MSc in Retail and Digital Banking, designed in partnership with Cranfield University. By investing in our colleagues across the Bank through initiatives such as this, we are ensuring that we will continue to be a disruptive force in UK retail banking.

2018 also saw us expand the work we do within our communities. During the year we hosted 3,500 community and charity events in our stores as well as taking over 41,000 school children through our financial education programme, Money Zone. We also continued to support our two charity partners, Place2Be and Alzheimer's Society, and colleagues have raised over £140,000 for these important causes during the year.

Deposit-led banking

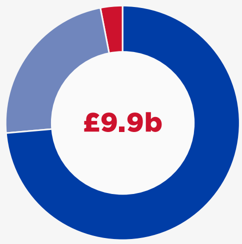
In 2018 we created more FANS than ever before, who in turn each trust us to deliver exceptional service at every point of contact. Despite an increasingly competitive marketplace for savings, we grew our deposits by 34% to over £15 billion and continued to do so at low cost. This was assisted by the expansion of our network by another ten stores, with new markets including Southampton, Oxford and Bristol.

At the start of the year we launched 'Current Account Online', allowing people all over the country to join the revolution. This technology is truly game-changing, allowing retail customers to open an account in less than ten minutes, using 'selfie' identification technology. It also allows people who live near our network to order online and pick up their card straight away in store, finally bringing the era of 'click and collect' to banking.

Low-risk lending

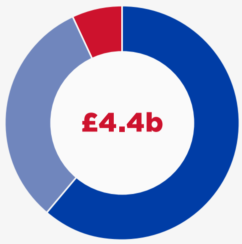
The UK mortgage landscape remains challenging as despite a further base rate rise, mortgage yields remain broadly flat. In spite of this headwind our lending engines continued to deliver gains in market share, largely driven by organic lending growth.

Retail: 69%



Retail mortgages	£7.3b
Retail mortgages BTL	£2.3b
Customer leading	£0.3b

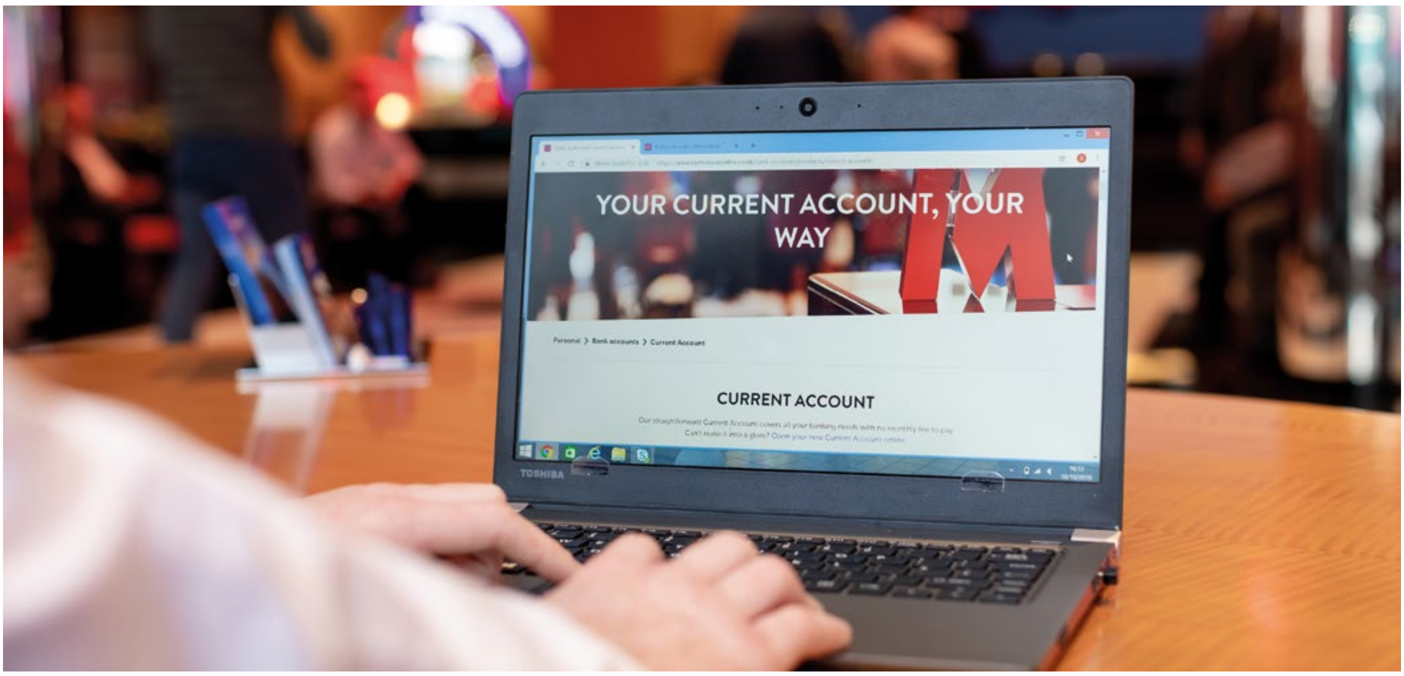
Commercial: 31%



Commercial loans	£2.7b
Professional BTL	£1.4b
Asset and invoice finance	£0.3b

For the second year running we met our pledge to provide £1 billion of net lending to businesses. Given our own entrepreneurial beginnings, we understand the important role that access to finance plays for all organisations. Delivering this pledge has allowed thousands of businesses to grow, recruit and innovate, benefiting their communities and contributing to the success of the UK economy.

We continue to have local business managers in store and on the phone whenever customers need them and remain committed to offering simple and fair products to our customers.



OPERATING REVIEW CONTINUED

Strong capital base
Our balance sheet continues to be underpinned by our strong capital position, supported by a further equity capital raise of £303 million in July 2018.

We also completed our first-ever Tier 2 debt issuance, to support our growth. We are grateful to our investors, both existing and new, who believe in our model and supported these transactions.

Looking forward, maintaining a strong capital position while having the resources to support further capital efficient growth remains a key focus for us. We plan to raise equity of c.£350 million in 2019 and have a committed standby underwrite to support the transaction. The Chairman and Executive Directors also intend to participate in this fund raise.

It remains our intention to maintain a minimum Common Equity Tier 1 ('CET1') ratio of 12% and a regulatory leverage ratio above 4%. Our capital planning also includes the issuance of up to c.£500 million of MREL-eligible securities in 2019 to meet our transitional MREL requirement by 1 January 2020.

Awards and recognition
2018 saw our work recognised across the board, including being named as one of the UK's 25 best companies to work for by Glassdoor.

We were also ranked top for overall service quality in personal banking in the second Competition and Market Authority's ('CMA') Service Quality Survey released in February 2019. We also came second among business account holders. We were the only bank to achieve a top five spot for all qualifying business and personal services.

Strategic priorities
Our integrated customer experience model is working well and we remain committed to our core strategy of creating FANS, attracting low-cost sticky deposits and lending at low risk. However, we are conscious of the need to adapt to the conditions in the wider economic, commercial and regulatory environment. To that end we are implementing four strategic initiatives to deliver the next phase of our growth: i) balancing growth with profitability and capital efficiency; ii) rebalancing the lending mix to optimise capital allocation and returns; iii) expanding our range of services to create new sources of income; and iv) improving cost efficiency. Each of the initiatives is set out in greater detail below.

In order to balance growth and profitability we will moderate deposit growth to the c.20% per annum range, with a concentration on relationship current accounts and variable accounts, while reducing the proportion of higher-cost term deposits. We will also manage our loan to deposit ratio to the 85-90% range over time, thereby balancing loan growth to optimise capital efficiency and profitability. The expansion of our physical store network and digital footprint to deliver an integrated customer experience will remain at the core of our model.

Our lending will be built around low-risk mortgages, which are both cost-efficient and deliver a higher return on equity. In addition, we will use the C&I funding to broaden business services, creating opportunities for further SME and commercial trading business lending, whilst reducing the proportion of lower return on equity ('ROE') commercial real estate loans. As the risk-reward trade-off in consumer unsecured lending improves, we will also grow in unsecured lending and credit cards.

We will drive expansion in fee income through launching new value-added services, especially for SMEs. The initiatives we expect to launch include developing our digital offering, particularly in relation to online business accounts. We will partner with companies that can work with our customers to make running their business more convenient across a range of issues from tax to payroll.

Part of ensuring the model is in the right shape for the broader environment will mean reducing our cost base. We recognise that the pace of improving operating leverage has been too slow and requires back-office transformation to scale appropriately with our growth. We have therefore identified a programme of initiatives that will enable us to achieve a 55-60% cost:income ratio in the medium term. These cost actions will enable us to scale more efficiently with our pace of growth, with digitisation and automation improving efficiency across our operations.

Finally, our application with the Prudential Regulation Authority ('PRA') regarding Advanced Internal Ratings-Based ('AIRB') migration for residential mortgages is ongoing but accreditation is not expected before 2021.

Guidance

	Medium-term guidance
Deposits growth	c.20% per annum, c.2% share of the market by 2023
Store growth	c.8 new stores a year plus C&I funded store growth (2 stores in 2019)
Average deposits per store per month	>£4 million
Loan to deposit ratio	85% – 90%
Cost of risk	15bps – 30bps through the cycle
Cost:income ratio	55%-60% by 2023
Capital	12% minimum CET1 ratio and leverage ratio >4%
Return on equity	Low double digit ROE by 2023

Summary

2018 has seen us pass another set of incredible milestones. We have expanded our reach further than ever before, enabling more people to save for their future, buy their own home or support the growth of their business with us.

We have been rewarded in these endeavours by a 140% increase in underlying profitability to £50.0 million. Our statutory profitability increased by 117% to £40.6 million.

2019 will see us continue to focus relentlessly on creating FANS. We will also continue to invest in all areas of our business whilst balancing growth, profit and cost efficiency.

ONLINE ACCOUNT OPENING

RETAIL FANS

"It's really important for me to have a bank that supports my busy lifestyle. Metro Bank makes everything simple, convenient and quick. I was particularly impressed at how easy it was to open my current account online, which took less than ten minutes."

Holly

Holly's busy work schedule and active social life mean that she is constantly on the go. She wanted a new bank that gave her flexibility in when and how she managed her finances, and technology to help her keep on top of her income and outgoings. She was attracted to Metro Bank by our opening hours and the 'Insights' feature on our mobile app. Using cutting-edge 'selfie' identification and verification, Holly was able to open her new account at home in less than ten minutes. She then had the option of collecting her new card immediately in her local Metro Bank store or having it posted to her the next day.

"We put creating FANS at the heart of everything we do, which drives us to create innovative services to help them with all their banking needs."

Chinwe – Head of Technical Analysis and Design, Banking Solutions

Our integrated model in action

Chinwe's role is focused on delivering game-changing new services that our customers really love, such as Current Account Online. She works with our Technology, Products and Business teams to design and deliver innovative, resilient and secure banking solutions. Her team provide support for all customer-facing channels, as well as back office operations teams to continue surprising and delighting our FANS.

Our Current Account Online is a great example of our integrated physical and digital customer experience. It combines the strengths of our flexible technology architecture with our growing store network. We give customers a choice of how they open and operate their accounts, truly bringing 'bricks and clicks' to UK banking.

Best Digital Onboarding Strategy
Global Retail Banking Awards 2018

Best All Round Personal Finance Provider
Moneynet Personal Finance Awards 2018

INSTANT ACCOUNT OPENING

SME FANS

“We are not just a number to Metro Bank and that matters a lot! They are always friendly, welcoming and even know us by name. Anything which takes a month to get done elsewhere, Metro Bank does in just a few hours or days. Without them we would not be where we are today, and that is a fact.”

Sapna Caterers

Muhammed’s family-run business, Sapna Caterers, has grown to become one of the top Asian food caterers in London. Muhammed attended one of the regular business networking events hosted by Metro Bank at his local store in Slough. He was impressed by the unique customer service he experienced and chose to open a business current account with us. Our local business manager met with Muhammed the following day – and he’s not looked back since. What he loves most about Metro Bank is the service he receives, 24/7, 365 days a year.

"Our physical network and digital footprint deliver an integrated customer experience, which supports our business banking customers in a way that suits them best."

Sanjeev – Local Director, Ealing

Our integrated model in action

We believe SMEs are one of the most underserved communities in the UK. In Sanjeev's role as a Local Director, he acts as a personal contact point for the business customers we serve, focusing on providing relationship banking. Combined with our expanding digital capabilities in business banking, our focus on having a local presence supports our growing store network across the UK, as we work towards becoming the community bank of choice. It's all about making banking easy, straightforward and hassle free. That's why 15% of SME switchers in London join Metro Bank.

Best Business Account

British Small Business Awards 2018

INSTANT DECISION MAKING

COMMERCIAL FANS

"Metro Bank's unique culture and quality customer service is what sets them apart from other banks. They demonstrate a pragmatic, down-to-earth and can-do approach in fulfilling our business requirements."

Slicker Recycling

Slicker Recycling is a market-leading specialist in the collection and recycling of waste oils and hazardous workshop waste. They were introduced to Metro Bank as part of their search for a long-term partnership bank that would add value and be flexible enough to support their growth aspirations. Metro Bank's entrepreneurial approach to understanding their business and financing requirements was a great match for Slicker's philosophy and culture.

"We find AMAZEING individuals to come and join the revolution in British banking; people who are as passionate about delivering great customer service and creating FANS as we are."

Carly – Head of Recruitment

Our integrated model in action

Culture is at the heart of our business and begins on day one for new colleagues joining Metro Bank. We recruit, train and lead our colleagues to deliver great customer service as part of our unique business model. At Metro Bank, we believe in hiring for attitude and training for skill.

Carly's role is crucial in ensuring that we hire great people. Her team oversee the end-to-end recruitment process and take an inclusive approach that attracts fantastic, diverse people who are aligned to our purpose and culture.

Finalist
British Bank Awards 2018

PRIVATE BANKING

PRIVATE BANKING FANS

“Metro Bank has been very helpful and easy to work with. I like that the team are really on the ball. They understand my needs well and act efficiently to provide the right solutions. Nothing is ever too much trouble for them.”

Simon

Simon is a successful entrepreneur who is highly relationship driven. Unhappy with the level of service at his previous bank, he decided to make the switch to Metro Bank for the “high touch”, personalised service that our Private Banking teams offer. He loves that his dedicated Private Banker is easily accessible at all times and also understands the needs of his business interests, including Future Energy Solutions, a global provider of lighting as a service.

“Our customers really appreciate having a dedicated Private Banking Director – they trust us to look after them.”

Etiksha – Lead Private Banking Director, Private Banking – Professionals and Seniors

Our integrated model in action

We’re here to deliver a seamless 24/7 service. Our customers appreciate the continuity of service offered by their dedicated contact in our Private Banking teams, such as Etiksha. We combine quality, around-the-clock personal service with award-winning technology to make banking simple for our customers.

We take time to understand our customers’ requirements, supporting both their business and personal banking needs. Our Private Banking model offers simple products that are transparent and easy to understand, supported by a bespoke service model. We focus on traditional banking and lending, rather than offering investment management products and our customers appreciate this straightforward approach.

Best All Round Personal Finance Provider

Moneynet Personal Finance Awards 2018

FINANCIAL REVIEW

David Arden, Chief Financial Officer

Since joining Metro Bank in the spring of 2018 I have been particularly impressed by the passion and dedication everyone at Metro Bank has towards our shared purpose of delivering a revolution in UK banking.

2018 has been another year of double-digit volume growth and we delivered a strong financial performance. The continued expansion of our store footprint to ten new locations, integrated with market-leading technology, is helping to strengthen our unique offering and in turn drive customer acquisition. During the year we added over 400,000 customer accounts which underpinned our 34% deposit growth, 48% lending growth and a statutory profit before tax increasing by 117% to £40.6 million.

Despite the strong year, we faced some headwinds in the second half of the year, as despite a further base rate rise, lending yields, particularly within the mortgage market, fell leading to income compression.

In January 2019, we announced that we had adjusted the risk weighting of certain commercial loans that had the combined effect of increasing our RWAs by £900 million. This doesn't impact the operational performance of the business and overall we remain well capitalised with a CET1 ratio as at 31 December 2018 of 13.1%.

To help our capital efficiency in 2019 we will be seeking to raise c.£350 million of equity, which will support our growth and provide continued certainty over our capital robustness. Our future growth will be at a slower rate than historically and we will focus on balancing profitability and capital efficiency to ensure we grow in the most optimal manner.

Deposits

	2018 £'million	2017 £'million	Growth
Deposits	**15,661**	11,669	34%
Customer accounts	**1,620,000**	1,217,000	33%
% current accounts	**30%**	32%	
Commercial:retail deposit split	**53%:47%**	53%:47%	
Cost of deposits	**0.61%**	0.54%	7bps

During the year deposits from customers increased by 34% to £15.7 billion (2017: £11.7 billion).

Growth was primarily driven through customer acquisition, with the number of accounts growing from 1,217,000 to 1,620,000 at year end. This was supported by our new store openings, the launch of Current Account Online as well as the continued strong performance of our existing network.

Cost of deposits rose during the year to 61bps owing to combination of a further base rate rise, combined with a competitive deposit market. Our broad deposit mix which is made up of 30% current accounts helped cushion the impact of these factors and should continue to provide an advantage if and when base rates rise further.

We remain focused on being a deposit-funded bank and made our final drawdown from the Bank of England's Term Funding Scheme ('TFS') before it closed in February 2018. Our total borrowings under the scheme are £3.8 billion (2017: £3.3 billion), due for repayment from 2021.

Assets

	2018 £'million	2017 £'million	Growth
Loans and advances to customers	**14,235**	9,620	48%
Total assets	**21,647**	16,355	32%
Commercial:retail lending split	**31%:69%**	33%:67%	
Loan to deposit ratio	**91%**	82%	9pps
Cost of risk	**0.07%**	0.11%	(4)bps

Net loans and advances increased by 48% to £14.2 billion (2017: £9.6 billion).

This was driven primarily through organic growth in mortgages and commercial loans and was supplemented by the purchase of a portfolio of UK mortgages. The portfolio has a weighted average seasoning of c.13 years and has a similar credit risk and profile to our current mortgage book.

Although volumes have increased, the pricing of mortgages continues to be very competitive. The impact on income from this was slightly mitigated by the loan to deposit ratio increasing to 91% at the year end (2017: 82%). Pressure on mortgage yields looks set to continue into 2019 as excess market liquidity persists. Despite these challenges we remain well placed to capitalise on the opportunities ahead. We expect rates to normalise in due course.

2018 saw the introduction of IFRS 9 which, among other changes, impacted the level of credit impairment provision we recognise, which rose £22.7 million upon transition.

Despite the introduction of IFRS 9 cost of risk remains low at 0.07%, a 4bps decrease from 2017. Overall, the credit quality of the book remains strong, with average debt-to-values on residential mortgages and commercial term lending of 61% and 59% respectively (31 December 2017: 60% and 58% respectively). Consumer lending continues to remain a small part of our business, at 4% of gross lending. Looking ahead, well collateralised, low-risk SME and residential lending will continue to be our focus with an increasing presence in unsecured lending as the market normalises.

Income

	2018 £'million	2017 £'million	Growth
Net interest income	**330.1**	241.0	37%
Other income	**74.0**	52.8	40%
Total income	**404.1**	293.8	38%
Net interest margin ('NIM')	**1.81%**	1.93%	(12)bps
Customer NIM	**2.21%**	2.19%	2bps

Our income grew 38% year-on-year to £404.1 million, driven by increasing lending volumes and a higher loan to deposit ratio. NIM fell by 12bps year-on-year due to yield compression, primarily due to front book lending pricing, driven by excess market liquidity caused by the introduction of ring fencing. NIM was also impacted by £7.2 million of interest costs related to our tier 2 debt, which we issued in June. Customer NIM, which strips out the costs of tier 2 debt interest as well as the effect of the Bank of England Term Funding and Funding for Lending schemes rose by 2bps.

Other income, which consists primarily of fees and commissions, rose 39%, reflecting both the growth in volumes as well as the continued development and deepening of our relationships with customers. Looking forward, these additional sources of revenue represent an opportunity to increase income as our relationships with our customers deepen and we launch a broader ranges of services.

Operating expenses

	2018 £'million	2017 £'million	Growth
Depreciation and amortisation	45.1	33.4	35%
Total operating expense	355.5	266.9	33%
Cost:income ratio	88%	91%	

Operating expenses grew by 33% during the year to £355.5 million, reflecting the continued growth of the business and network expansion. We continue to experience positive operating jaws helping drive the cost:income ratio down to 88% (2017: 91%), although we recognise there is more work to do.

We are currently working on streamlining our operations to ensure we continue to grow in a cost-efficient manner.

Depreciation and amortisation grew at a faster rate compared to overall cost, up 35% year-on-year. This reflects our ongoing investment in our integrated offering and spending on projects to maintain our cyber resilience.

As we continue to grow we need to ensure our cost base is optimal and our processes are scalable to gain maximum efficiencies as volumes increase. Over the course of 2019 we will be looking to transform and re-engineer many of our functions to ensure this is the case.

For our next stage of growth we will use targeted initiatives to move towards our cost:income target, including making our back office functions more efficient. This will be done through a process of streamlining and automating processes combined with moving some of our support functions to shared service locations outside of London as we further increase our presence outside of the South East.

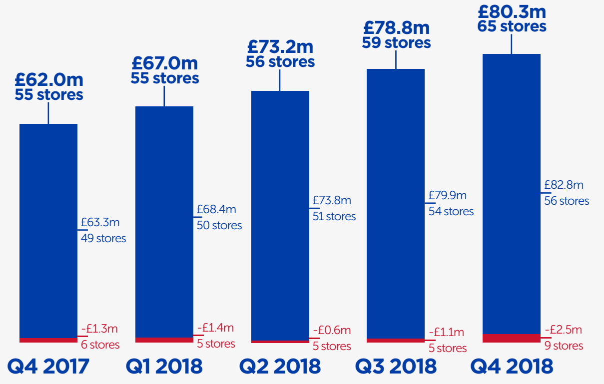
Stores

In 2018, we opened a further 10 stores taking our total footprint to 65 locations. At the end of the year, 56 sites were making a positive contribution including all stores open 12 months or more.

Going forward, we will be putting a greater emphasis on optimising our store roll out to ensure this appropriately balances capital, growth and efficiency.

In February 2019 it was announced we had been successful in securing £120 million of Capability and Innovation funding as part of our RBS Alternatives Remedies Package application. This funding will be used to accelerate our expansion into markets in the North of England. We will open our first stores utilising these funds later in 2019.

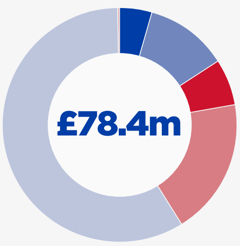
Store contribution increases for new and existing stores



Taxation

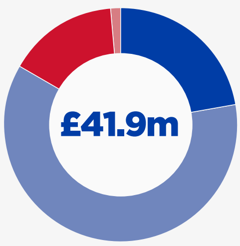
We recognise the benefits to society that arise from full participation in the tax system. As with everything we do, we are committed to acting with integrity and honesty as set out by the tax strategy, policies and practices we adopt. We made a total tax contribution in 2018 of £120.3 million, which comprised £78.4 million of taxes we paid and a further £41.9 million of taxes we collected.

Taxes paid



Corporation tax	4.6%
Business rates	11.5%
Land transaction tax	6.3%
Employer NIC's	18.7%
Irrecoverable VAT and Customs Duty	58.8%
Other taxes	0.1%

Taxes collected

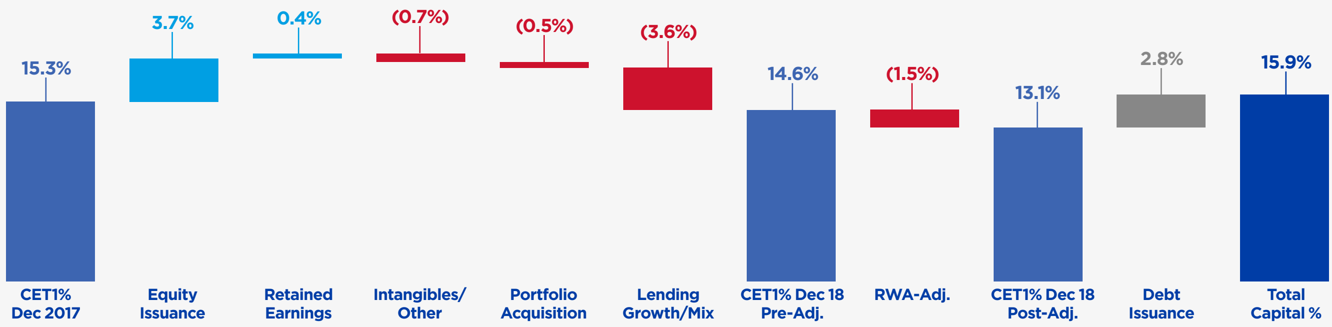


Employee NIC's	22.3%
PAYE	61.2%
Net VAT	15.4%
Other	1.1%

Our net deferred tax asset fell from £54 million as at 31 December 2017 to £40 million as at 31 December 2018. This was primarily driven by the utilisation of brought forward tax losses of £4 million and the required release of £9 million of our share-based payment deferred tax asset due to a fall in the Metro Bank share price over the reporting period.

In 2018 our tax expense recognised in the income statement was £13.5 million (2017: £7.9 million). Our effective tax rate for the year was 33.2% (2017: 42.2%).

CET1 ratio bridge



Capital

We are committed to maintaining a strong capital base in excess of regulatory minimums. As a fast-growing bank our profits are not yet sufficient to support the level of growth in qualifying regulatory capital we require. During 2018 we raised an additional £303 million equity via an accelerated book build. The raise was supported by both existing and new shareholders alike and completed at full market price.

Our capital position was further supported by a £250 million inaugural Tier 2 debt raise. This was a significant event for the Bank as we prepare to start raising minimum requirement for own funds and eligible liabilities ('MREL') debt in 2019. The MREL framework outlined by the Bank of England determines the minimum amount of loss absorbing resources banks require. The transitional MREL requirements will apply from 1 January 2020 and will see us need to raise c.£500 million of MREL during 2019.

	2018 £'million	2017 £'million	Growth
CET1 capital	1,171	897	31%
Risk-weighted assets ('RWAs')	8,936	5,882	52%
CET1 ratio	13.1%	15.3%	(220)bps
Total regulatory capital ratio	15.9%	15.3%	60bps
Regulatory leverage ratio	5.4%	5.5%	(10)bps
Leverage	6.4%	6.7%	(30)bps

The introduction of the new leasing standard, IFRS 16, will bring £313 million of additional RWAs onto our balance sheet. We will be adopting IFRS 16 in the most capital efficient manner; however, as a growth organisation with a young lease portfolio the impact will be more pronounced for us compared to many of our peers.

Over the medium term we expect to achieve greater capital efficiency from AIRB migration for residential mortgages. Our application with the PRA is ongoing but accreditation is not expected before 2021.

In January 2019, we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million. RWAs are calculated by applying an appropriate percentage of the value of a loan or other asset, according to the type of asset and some risk factors. There are two principle changes we have made in this process: to change the weighting placed on certain commercial loans secured by commercial property from 50% to 100%, and to change the weighting on certain PBTL assets from 35% to 100%, either where the underlying security is complex or part of a larger portfolio. While this adjustment had an impact on the capital surplus we hold, we remain well capitalised and hold surpluses to both regulatory requirements and management appetite.

We are learning the lessons from this and will continue to improve our systems and controls around capital and risk-weighted assets.

Looking ahead

2018 has been a strong year for us, despite the increasing headwinds in its latter half; however, I am excited for the growth to come in 2019. Although we will continue to face significant headwinds we will continue to focus on delivering our strategy and maximising the beneficial effects of our network. 2019 should also provide clarity around key macroeconomic uncertainties including Brexit.

We will also utilise the money from our successful bid for Capability and Innovation funding to help deliver continued support of SME businesses. This will include the opening of our first stores in the North. Alongside this we will continue to grow the rest of the business and move closer towards our targets.

David Arden
Chief Financial Officer
10 April 2019

RISK REPORT

Aileen Gillan, Chief Risk Officer

Safety and soundness: doing the right things the right way

Our unique culture aligns our people, processes and systems to the way we manage the risks inherent in our business activities. This ensures that our operations are carried out in a safe and compliant way, balanced with the superior customer service that enables us to create FANS.

Our approach to risk management consists of:

- putting our AMAZEING culture at the heart of everything we do;
- investment in growth capability; and
- enabling colleagues to focus on controls by doing the right things the right way.

We believe a culture that truly focuses on creating FANS by exceeding customers' expectations will deliver consistently great outcomes.

Overview

All colleagues are responsible for managing risk as part of their day-to-day role. Customer-facing colleagues are at the forefront of risk management, along with their line managers. The Risk team oversees risk management activities. It also supports other colleagues in their risk management work, for example, by providing centralised 'bump-up' support contacts for more complex requirements, freeing up customer-facing colleagues to focus on creating FANS.

The risk and control framework is designed to ensure that: all principal and emerging risks are identified, assessed, mitigated, monitored and reported; risk appetite is clearly articulated and policies aligned to it; appropriate processes, systems and controls are in place to support all colleagues in performance of their roles within risk appetite; and ongoing analysis of the environment in which we operate takes place to ensure we identify emerging risks and regulatory requirements.

Our unique, pervasive culture supports risk awareness by encouraging every colleague to think about the relationship between their role and our goal of creating FANS whilst growing safely and sustainably; and to be comfortable asking questions when they are not clear about policy to ensure their actions do not result in financial loss, reputational damage or customer detriment.

In January 2019, we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million. Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. Asset quality remains strong overall, consistent with our prudent approach to lending, and reflected in our low cost of risk and non-performing loans ratio. We have now completed a review of the commercial loan book as at 31 December 2018 supported by a major professional services firm and we are satisfied that the risk weightings have been assigned appropriately. We are continuing to work on further enhancements to our systems.

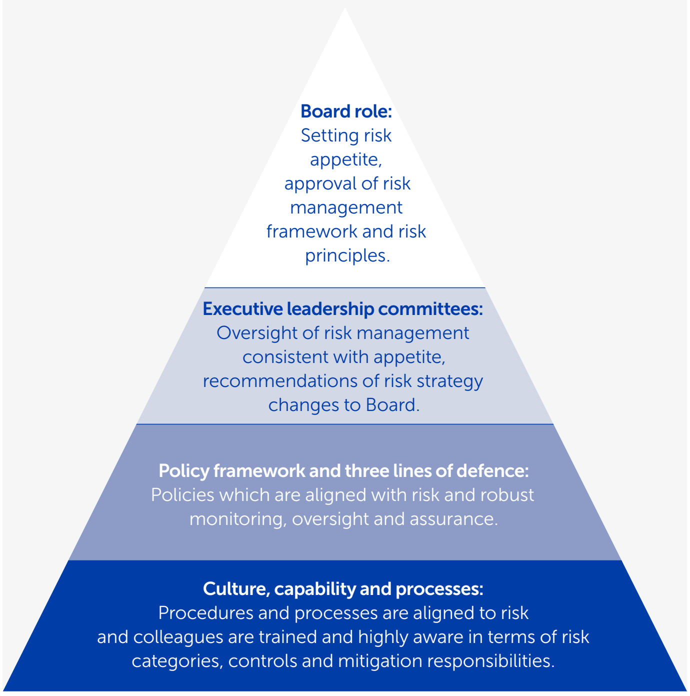
Board role

The Board is responsible for setting strategy, corporate objectives and risk appetite. The strategy and risk appetite considers the interests of our customers, shareholders and other stakeholders. On the advice of the Risk Oversight Committee ('ROC'), the Board approves the level of risk acceptable under each principal risk category, whilst providing oversight to ensure there is an adequate framework in place for reporting and managing those risks. The Board has delegated responsibility for reviewing the effectiveness of this framework to the ROC.

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

The Board has delegated responsibility for reviewing the effectiveness of internal controls to the Audit Committee. This committee monitors and considers the internal control environment, internal and external audits and risk assurance, and is assisted in its oversight role by our Internal Audit function. Internal Audit carries out both regular and ad-hoc reviews of risk management controls and procedures and reports the results to the Audit Committee. Internal Audit and the Audit Committee will review the commercial RWA controls enhancement programme in 2019. The Director of Internal Audit's reporting line is to the Chairman of the Audit Committee, with a dotted line to the CEO, and therefore supports the function's independence.

Governance and risk framework



Chief Risk Officer and the Risk function

Our Chief Risk Officer ('CRO') leads the Risk function, which is independent from operational and commercial functions. She is responsible for ensuring that appropriate risk management processes, policies and controls are in place, that they are sufficiently robust, that key risks are identified, assessed, monitored and mitigated, and that we are operating within our risk appetite.

The Risk team provides specialist knowledge and support to colleagues, acting as a reference point for advisory queries, whilst also overseeing colleagues and the risk management and controls in place. It operates themed, targeted and ad-hoc reviews to provide assurance to the leadership team, and ultimately to the Board, that risks are properly managed, controls are effective, and that we are not exceeding our risk appetite.

Risk management policies

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

Risk appetite

Our approach to risk appetite is to set relevant quantitative and qualitative measures against which risk management performance can be reviewed for each of our principal risks. Risk appetite is set by the Board, based on the recommendation of the ROC, and implemented by the Executive Risk Committee. Our risk appetite has been developed in line with our business plan, strategy and vision, and is underpinned by a culture in which all colleagues embed risk considerations in decision-making and are rewarded accordingly.

Risk Oversight Committee

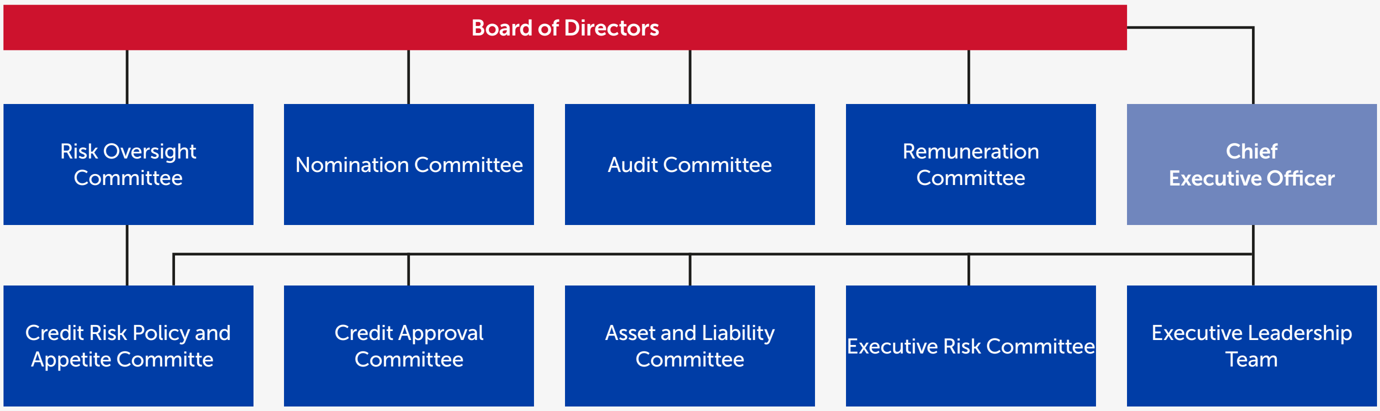
The ROC assists the Board in providing leadership, direction and oversight with regard to risk governance and management, and also assists the Board in fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls when creating FANS. It works closely with the Audit Committee. It is chaired by a Non-Executive Director and meets at least quarterly. Its responsibilities include:

- recommending to the Board our risk appetite;
- regularly reviewing risk exposures in relation to the risk appetite;
- reviewing risk policies, and approving or recommending to the Board for approval; and
- monitoring the effectiveness of risk management processes and procedures put in place by management.

Executive leadership committees

The CEO, supported by the Executive Leadership Team, is responsible for executing the strategy and managing risk exposures and making decisions and recommendations to the Board, as appropriate, via the following executive risk committees:

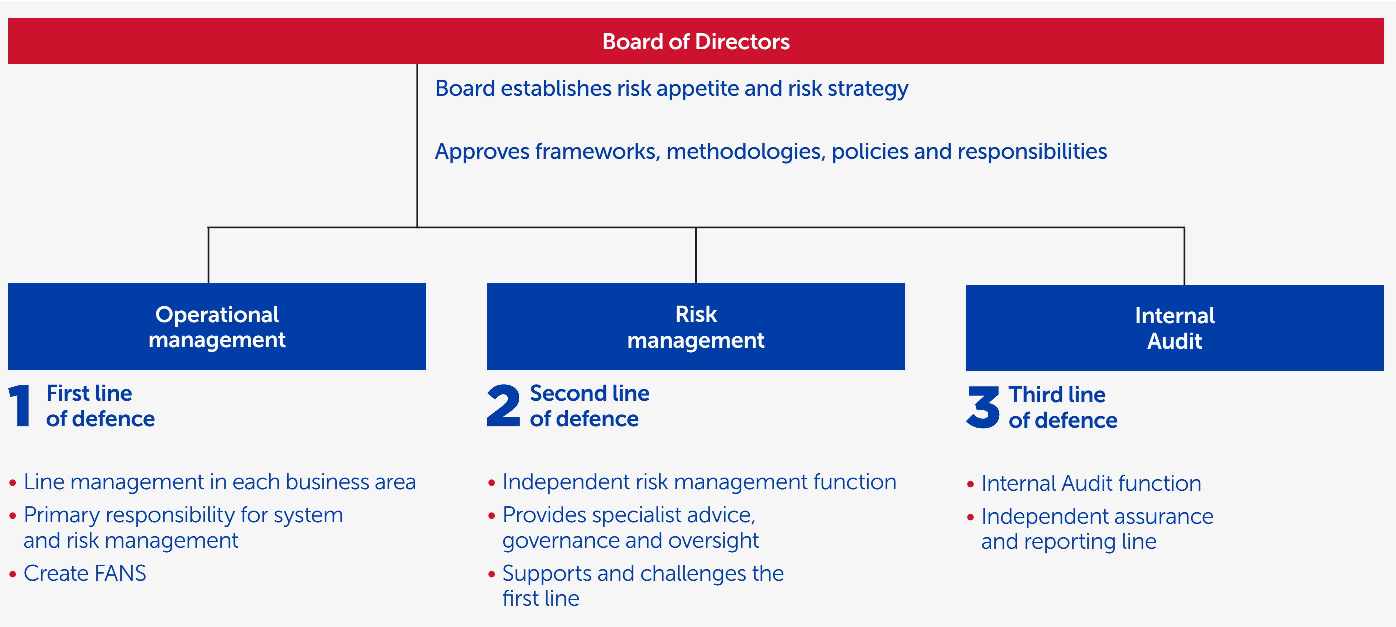
- Credit Risk Policy and Appetite Committee ('CRPAC') – The Committee is chaired by the CRO, meets monthly and is responsible for: oversight of credit risk policies; reviewing proposals on risk appetite; monitoring portfolio performance against risk appetite; along with the CFO, approving the impairment levels; and, approving all material aspects of IRB rating systems, including all material models.
- Credit Approval Committee – The Committee is chaired by the CRO or Director of Commercial Credit and is responsible for: sanctioning of higher value lending requests, and any exceptions to policy; monitoring overdue accounts; and granting and reviewing delegated lending authorities.
- Asset and Liability Committee ('ALCO') – The Committee is chaired by the CFO, meets monthly and is responsible for: ensuring that an appropriate balance is maintained between funding and lending activities; ensuring that we meet internal liquidity targets as set out in the Liquidity Policy; analysis of Capital Market trends, considered along with actual and projected business performance to assess the adequacy of funding to meet the projected targets; agreement of pricing decisions to ensure visibility of trading and capital impact; and monitoring interest rate risk
- Enterprise Risk Committee – The Committee is chaired by the CRO, meets monthly and is responsible for: reviewing enterprise, regulatory and compliance risk management issues with regard to risk appetite; oversight of the Enterprise Risk Management framework and performance of the Key Risk Indicators ('KRIs'); reviewing Assurance reports and findings; and, making recommendations for adjustment of policies to the Board.



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

Three lines of defence model

The first line of defence is operational management, who manage risk by maintaining appropriate systems and controls that are operated and effective on a daily basis. The second line of defence comprises the risk management function, providing advice and oversight through specialist support teams and the risk committees. The third line of defence is Internal Audit, providing independent assurance through internal reviews and reporting the results to the Audit Committee.



Principal risks

Our principal risks represent defined groupings that we use to help consistently identify, assess, manage, monitor and report risks. Using consistent risk categories enables risks to be aggregated to determine their overall impact to the organisation. The principal risks are designed to be both comprehensive and mutually exclusive.

Our principal risks are detailed below. In addition to the eight risks listed we also have ninth principal risk in the form of strategic risk. Strategic risk is a manifestation of material instances, or a combination of the other eight principal risks. As such strategic risk is assessed in line with those principal risks.

These are detailed further on pages 32 to 40

1. Credit risk

Definition

Credit risk is the risk of financial loss due to a borrowers failure to meet the terms of any contract or otherwise fail to perform as agreed.

For more information on our strategy please see pages 10 to 11

Change since 2017:
No change

Link to strategy:
Low-risk diversified lending

Appetite and mitigation

Appetite

The credit risk appetite and policy is owned and approved by the Board annually. Portfolio-level policies and credit risk appetite are recommended by the Executive to the Board via the Credit Risk, Policy and Appetite Committee ('CRPAC') and the Risk Oversight Committee ('ROC'). The credit risk appetite is specified as a set of key performance indicators ('KPIs'), concentration measures, capital and impairment components. Policy and appetite are based on sound credit risk principles.

Lending and collateral

Our foremost exposure to credit risk is through the loans and advances we make to our customers. We primarily mitigate credit risk through holding collateral against our residential mortgage and commercial term loan portfolios. Collateral is usually held in the form of real estate, guarantees and other liens that we can call upon in the event of the borrower defaulting. All real estate assets taken as security are supported by an external valuation with a first fixed charge registered at the land registry. At 31 December 2018 94% of our loans consisted of retail mortgages and commercial term loans secured on collateral with average debt-to-value of 61% (2017: 60%) and 59% (2017: 58%) respectively.

Our exposure to loans of greater than 100% remains low at less than 1% of retail mortgage lending (31 December 2017: 1%) and 11% of commercial term lending (31 December 2017: 12%). On the retail mortgage lending portfolio, these loans have principally been part of portfolios we have acquired. On the commercial term lending, additionally forms of collateral (such as debentures, unsupported guarantees providing recourse to our customers) are excluded from these debt-to-value ('DTV') figures, so the true credit risk exposure on these loans is lower and is underwritten on the strength of all types of collateral.

The approval for consumer lending and retail mortgages is automated and underpinned by scorecard and policy rules. The end-to-end process is overseen by our colleagues in the first line and approved in accordance with agreed delegated lending authorities.

Undrawn commitments

We have additional limited credit exposure to committed and undrawn amounts, such as unused overdraft limits and facilities. At 31 December 2018 we had £242 million (31 December 2017: £138 million) of undrawn credit card and overdraft facilities. We mitigate credit risk in respect of these undrawn balances by regular customer monitoring to allow undrawn limits to be removed if we observe credit quality deterioration.

Interest-only lending

We have exposure to refinance risk. This is the risk from loans to customers who are subject to a bullet or balloon payment at contractual maturity but who find themselves unable to refinance or otherwise make this payment. This risk arises principally in the mortgage book where the exposure to interest-only loans stands at £4.4 billion. There is further exposure to refinance risk in the Commercial Book of £1.6 billion from interest-only loans and a portion of non-fully amortising term loans.

We manage this risk by ensuring the borrower has an appropriate repayment plan in place or would be able to refinance the lending at the end of the term. Also by ensuring these loans are appropriately collateralised (see lending and collateral section above) we would have first charge in the event of default by the borrower.

Geographical and sector exposure

We manage the level of credit risk concentration based on individual borrowing entities, deal type and sector. We have specialist sector lending teams including in healthcare, hospitality, property and not for profit.

We also manage our lending exposure by region. Our current residential mortgage and commercial term lending is concentrated within London and the South East, which is representative of our current customer base and store footprint. As we expand our footprint over time we envisage our geographical exposure of lending will change. All of our current loans exposures are secured on UK based collateral.

Investment securities

As well as our loans and advances, the other main area where we are exposed to credit risk is within our Treasury portfolio. At 31 December 2018 we held £4.1 billion of investment securities which are used for balance sheet and liquidity management purposes, of which £3.4 billion is eligible as collateral at the Bank of England,

We have a robust securities trading and investment policy which requires us to invest in high-quality liquid debt instruments. At the 31 December 2018 81% of our investment securities were rated as AAA (31 December 2017: 79%) with a further 15% (31 December 2017: 13%) rated AA- or higher with minimal use of derivatives for hedging purposes.

Additionally we hold £2.5 billion (31 December 2017: £2.2 billion) in cash balances, which is either held by ourselves or at the Bank of England, where there is minimal credit exposure.

Understand more about our credit risk exposure on pages 136 to 149

Measurement and monitoring

Measurement

We measure credit quality for impairment purposes using a suite of IFRS 9 models. We have a strong suite of credit risk models and have invested heavily in credit risk model development in support of enhancing our IFRS 9 calculation, stress testing capability and IRB programme.

Our IFRS 9 models incorporate the impact of a range of possible future economic scenarios we have placed a higher probability on our Downside scenario (a worsening economic outcome), largely to reflect a greater likelihood of a worse outcome for the UK economy due to exiting the European Union. The models used are subject to the internal model governance, are validated by an independent team, regularly monitored and annually reviewed.

Key Performance Indicators ('KPIs') are defined, reported against and escalated through to the Risk Oversight Committee. KPIs on portfolio concentrations are included in the monitoring reviewed by the Executive and Board Committee as part of our risk appetite.

We monitor lending policy exceptions and their subsequent performance.

Our stress testing capability has been enhanced significantly over the last 12 months in order to account for the introduction of the IFRS 9 models.

Credit risk quality assurance reviews are performed regularly and cover portfolios and sector exposure. The reviews cover top exposures, portfolio trends, concentration and key risk areas.

As of 31 December 2018 all exposures are measured under the standardised approach for credit risk for regulatory capital, we are parallel running the IRB rating system for residential mortgages and a slotting solution for commercial real estate will be implemented during 2019.

Monitoring

Credit risk is overseen by the Chief Risk Office ('CRO'), Credit Risk, Policy and Appetite Committee ('CRPAC') and the Risk Oversight Committee ('ROC').

Three functions support the management of credit risk and report to the CRO:

- Our Commercial Credit Underwriting team supports the creation of commercial credit policies, ensures the business has suitable credit assessment tools and procedures and provides an independent review of individual commercial credit proposals and renewals.
- Our Credit Risk and Analytics team develops credit risk policies in accordance with the risk appetite, develops appropriate frameworks to comply with regulatory and statutory requirements and works with other areas of the Bank to ensure credit risk control practices are effectively implemented throughout the Bank. It monitors aggregate exposures and reviews portfolio performance and concentrations, providing comprehensive reports to senior management and the ROC. It also develops and monitors models used for automatic credit decisioning, portfolio management and impairment, and develops stress test methodologies.
- Our Treasury Risk team supports the development and implementation of applicable policies and procedures and monitors the credit risk aspects of the Treasury portfolio.

2. Operational risk

Definition

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

For more information on our strategy please see pages 10 to 11

Change since 2017:
No change

Link to strategy:
Unique culture

Appetite and mitigation

Appetite
We aim to maintain robust operational systems and controls and seek a low level of operational risk. We have detailed policies, procedures and controls in place which are designed to evaluate, monitor and report these risks as well as, where appropriate, develop mitigation plans to minimise the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss.

Investment in our systems and technology
We continue to invest in the ongoing maintenance and development of our key controls, which combine system and process measures to mitigate risk or to minimise any impact on us or our customers.

The pace of our growth has the potential to increase the execution risks associated with delivery of consistently AMAZEING service to our customers. Therefore, in 2018, we continued to invest heavily in our systems. This included ongoing development of our end-to-end technology infrastructure to provide a single customer view, enabling better customer service. Where possible, we have invested in fully or semi-automated controls to support us in managing within risk appetite, while freeing up colleagues to focus on our customers.

We continue to grow our omnichannel presence, offering customers a choice in how they interact with us to suit their needs. This increases our digital risk, in an environment where online and mobile technologies are changing the way banks interact with customers. To mitigate this risk we are investing even more in our digital platforms to build resilient and secure technologies. The current era of evolving technology requires us to maintain a secure digital infrastructure. This is central to our vision of creating FANS, by protecting their data.

Culture and training
As we continue our growth journey, we do so safely through continued investment in our colleagues and training so that we can continue to support them in delivering consistently AMAZEING service to our customers, whilst maintaining a safe, reliable and resilient banking operation.

Operational resilience
Operational resilience has been a central part of our risk management activity throughout 2018. This includes assessing a number of top operational risks, including: business continuity; technology; cyber; information security; payments; and third-party suppliers and ensuring we continue to appropriately mitigate these.

Measurement and monitoring

Measurement
We measure operating risk using a number of quantitative and qualitative metrics. These KPIs are defined, reported against and escalated to the ROC.

Monitoring
We continuously develop and embed our approach to the management of operational risks with the aim of maintaining robust operational processes, systems and controls. In 2018 we enhanced our risk and control framework through the further development of our tools and processes for identifying, assessing, managing, monitoring and reporting operational risks. Key developments included: operational (including IT) resilience; the deployment of new automated controls to mitigate the fraud risk experienced widely by the industry; operational disruption event response planning; and, enhanced operational risk scenario analysis, particularly as part of the our Internal Capital Adequacy Assessment Process ('ICAAP').

3. Liquidity and funding risk

Definition

Liquidity risk is 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.

For more information on our strategy please see pages 10 to 11

Change since 2017:
No change

Link to strategy:
Diversified low-cost deposits

Appetite and mitigation

Appetite

The purpose of our liquidity policy is to ensure that we maintain liquidity resources which are sufficient, both as to amount and quality; to ensure that liabilities can be met as they fall due; and to ensure that we maintain a prudent funding profile, appropriately diversified within the context of a deposit-led bank. Our approach is to ensure that we can both meet payments as they fall due and support asset growth in line with plan, in both normal conditions and in the event of a liquidity stress, and that we can survive a severe liquidity stress event and continue as a going concern.

Deposit-funded approach

Our mid-term guidance as set out on page 15 underlines our approach of having a long-term loan-to-deposit ratio of 85-90%. Our deposit-led approach means we do not have reliance on wholesale funding to enable our ongoing lending.

Our deposits are diverse and are generally low cost. This means they are less sensitive to competition within the deposit market, especially in a rising base rate environment. At 31 December 2018 53% of our deposit came from commercial customers (31 December 2017: 53%) with the remaining 47% (31 December: 47%) coming from retail customers. Additionally 30% of deposits at year end (31 December 2017: 32%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products. In 2018 our cost of deposits was 0.61% (2017: 0.54%) below the current Bank of England base rate of 0.75%.

Liquidity management

We aim to hold a prudent level of liquidity to cover unexpected outflows, ensuring that we are able to meet financial commitments for an extended period. We recognise the potential difficulties in monetising certain assets, so set higher-quality targets for liquid assets for the earlier part of a stress period. We have assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and maintain an appropriate liquidity buffer at all times. Our Liquidity Coverage Ratio ('LCR') ensures that we comply with our own risk appetite as well as regulatory requirements.

Our liquidity portfolio consists of cash and balances at the Bank of England as well as high-quality liquid assets ('HQLAs') that are available to be sold to raise funding in the event of stress. We are conscious of the cost implications of holding high levels of liquid assets and seek to avoid holding a "buffer over a buffer".

Contingency planning

The Contingency Funding Plan ('CFP') details a series of indicators which would tend to suggest a liquidity stress event may be in train. It assigns responsibilities and actions to key individuals, specifies time frames, and establishes the Contingency Funding Committee ('CFC') chaired by the CFO which sits as required in the event of a liquidity stress.

Understand more about our liquidity risk exposure on pages 149 to 151

Measurement and monitoring

Measurement

Our asset and liability management ('ALM') model is used to capture all positions across the Bank and evaluate their liquidity. We calculate our LCR and perform stress testing of our liquidity daily. Forward-looking short-range forecasts are produced at least monthly.

Early warning indicators ('EWIs') are set out in the Liquidity Policy. Colleagues monitor these and bump up any triggers. A cost of funds model is used help colleagues account for liquidity, capital and interest rate risk in pricing.

We perform an Internal Liquidity Adequacy Assessment Process ('ILAAP') every year for the identification, measurement, management and monitoring of liquidity, having due regard for the PRA Rulebook section 'Internal Liquidity Adequacy Assessment'. Treasury seeks ILAAP input from a range of teams including Finance and Products.

The conclusions of the ILAAP are reviewed and approved by the Board, assisting in:

- identification of our material liquidity risks;
- deciding the management of material liquidity risks; and
- determining the Board's risk appetite.

For liquidity risk, we assess against internal and external requirements. The chief external requirement is the LCR, and a series of internal requirements are set and maintained through our ILAAP.

Monitoring

Treasury risk has responsibility for our compliance with liquidity policy and strategy. The Regulatory Reporting team monitors compliance with LCR. The ALCO is responsible for liquidity and funding risk. Liquidity and funding cannot be considered in isolation, and we have regard to liquidity risk, profitability, and capital optimisation when considering funding sources. We issued subordinated debt for the first time in 2018, primarily as a capital management measure.

Our liquidity mismatch chart is in note 24 to the financial accounts. Our liquidity position has remained stable over the year with our LCR remaining strong at 139% (2017: 141%).

4. Market risk

Definition

Market risk is the risk that earnings or the economic value of equity will underperform due to changes in interest rates, foreign exchange rates, or other financial market asset prices. Our ability to manage market risks contributes to our overall capital management.

For more information on our strategy please see pages 10 to 11

Change since 2017:
Risk increased

Link to strategy:
Low-risk diversified lending

Appetite and mitigation

Appetite
As maturity transformation is one of the primary roles of a bank, we are exposed to interest rate risk by many of our activities. Our Market Risk Policy is set with a view to ensuring that our funding resources are invested in assets that satisfy our earnings risk and economic value risk appetites.

Interest rate risk
We benefit 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 we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes.

Our Treasury and Treasury Risk teams work closely together and ensure that risks are managed appropriately – and that we're well positioned to avoid losses outside our appetite, in the event of unexpected market moves.

Foreign exchange exposure
We have very limited exposure to foreign exchange risk. Foreign exchange assets and liabilities are matched off closely in each of the currencies we operate and less than 5% of our assets and liabilities are in currencies other than pounds sterling. We do not have any operations outside the United Kingdom. We offer currency accounts and foreign exchange facilities to facilitate customer requirements but do not perform speculative trading activities.

We have hedge accounting solutions in place to reduce the volatility in the income statement arising from these hedging activities.

Treasury management
We are mindful of upcoming regulatory changes, such as ring-fencing, as we shape the investment portfolio in 2019 and beyond – and are working to reduce the proportion of our assets that are ineligible for a ring-fenced entity. As our loan to deposit ratio approaches its long-term target, natural roll-off of ineligible assets is expected to continue, and we will cease to acquire assets which a ring-fenced entity may not hold.

Understand more about our market risk exposure on pages 151 to 152

Measurement and monitoring

Measurement
We measure interest rate risk exposure using:

- economic value sensitivity: calculating repricing mismatches across our assets and liabilities and then evaluating the change in value arising from a change in the yield curve. Our risk appetite scenario is based on a parallel rate movement of 2% to all interest rates, but we evaluate 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. Our risk appetite scenarios are based on parallel rate movements of 2% and of divergences of up to 1.15% between Bank of England base rate and LIBOR against a constant balance sheet. We also evaluate 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.

The frequency of calculating and reporting each measure varies from daily to quarterly appropriate to each risk type.

We use an integrated Asset and Liability Management ('ALM') system which consolidates all our positions and enables the measurement and management of interest rate repricing profiles for the entire Bank. The model takes into account behavioural assumptions as specified in our 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.

We measure and monitor our exposures to foreign exchange risk daily and do not maintain net exposures overnight in any currency other than pounds, beyond de minimis amounts.

Monitoring
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 the ALCO. A digest of interest rate risk measures and details of any excesses are presented monthly at the ALCO.

5. Financial crime risk

Definition

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

For more information on our strategy please see pages 10 to 11

Change since 2017:
No change

Link to strategy:
Diversified low-cost deposits

Appetite and mitigation

Appetite

The Risk team define our risk appetite and recommend this to the Board for approval. In order to monitor the effectiveness of our control framework and the alignment with our risk appetite, KPIs are defined, reported against and escalated to the ROC.

Investment in our systems and technology

We invest in and refine our financial crime technology such as customer screening, payment profiling and customer authentication systems where we have evolved the effectiveness of these technology capabilities to reflect our risk appetite. We have also invested in enhancing our data analytics capabilities to further enhance our fraud prevention, detection and investigation controls.

In 2018 we saw fraudsters taking advantage of external operational disruption events impacting customers and financial institutions. We continue to invest in our operational resilience capabilities to ensure that we are proactively avoiding, responding, recovering and learning from internal and external operational incidents to minimise the impact on our customers.

Improving customer awareness

We launched our "Be Your Own Hero" campaign designed to provide our customers with new fraud trends as well as hints and tips to enable them to protect themselves from becoming a victim of fraud.

We anticipate that in 2019 we will continue to see an increase in more sophisticated social engineering cases impacting our customers, with fraudsters adapting and very closely mimicking the Bank. This is making it harder for customers to identify targeted fraud attempts and protect against them even with targeted customer fraud awareness communications and campaigns. There is an interaction with our cyber security, data privacy and cyber risk awareness in this area.

Colleague training

A key focus of 2018 was strengthening our dedicated financial crime specialist resource and equipping this resource and our colleagues across the Bank with specific training. We increased our headcount across both lines of defence and invested substantially in equipping a number of our colleagues with industry recognised financial crime qualifications. We rolled out further training and education to key colleagues in our stores.

Horizon scanning

We actively conduct horizon scanning activity to identify emerging trends and typologies as well as to identify and prepare for new legislation and regulation. As required, we will update our control framework to ensure alignment with these risks.

Measurement and monitoring

Measurement

The Financial Crime Risk team own our control framework with accountability for execution owned by our colleagues across the first line. The Risk team define our risk appetite and recommend this to the Board for approval. In order to monitor the effectiveness of our control framework and the alignment with our risk appetite, Key Performance Indicators are defined, reported against and escalated through to the Risk Oversight Committee. We report monthly on our Bank wide account opening pass rates, fraud volumes and associated operational losses through this process.

Monitoring

Our policy framework also sets out key requirements which must be complied with consistently to manage our risk.

We have risk-based audit and assurance plans to monitor the effectiveness of our controls. Dedicated and skilled resources are in place to complete these reviews with findings and recommendations tracked through our financial crime governance structure.

We maintain policies and minimum standards, aligned to our legal and regulatory obligations which also articulate our risk appetite.

Each year we complete a financial crime risk assessment to ensure that our financial crime control framework is commensurate and robust to manage our inherent business risks across each of the four areas.

We participate in external industry forums including being an active member of the Cyber Defence Alliance and liaise with government bodies such as the Home Office, HMRC, Financial Conduct Authority ('FCA') and law enforcement to support our identification of new and evolving risks.

6. Regulatory risk

Definition

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

For more information on our strategy please see pages 10 to 11

Change since 2017:
Risk increased

Link to strategy:
Low-risk diversified lending
Diversified low-cost deposits

Appetite and mitigation

Appetite
We have no appetite for regulatory risk. We aim to comply with the relevant rules, regulations and sourcebooks. We have policies and procedures in place to ensure compliance with the regulatory obligations, and robust oversight and monitoring to evidence compliance. Alongside this we regularly engage with the PRA, the FCA, and other industry bodies to proactively manage this risk.

Avoidance
Our mitigation strategy favours risk avoidance through ensuring compliance with our relevant rules and requirements. We seek to achieve this through the allocation of appropriate resources for regulatory compliance advisory and oversight activities. In instances which challenge our ability to comply or remain compliant with a particular rule, we seek to collaborate and engage early with our regulatory supervisors to reduce the risk to an acceptable level.

Our Board, ROC and Executive Leadership Team (via the Executive Risk Committee) continue to monitor and oversee our focus on maintaining regulatory compliance. This includes periodic reporting on regulatory themes, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk measures and Board-approved policies and standards.

Measurement and monitoring

Measurement
We have policies, procedures and standards in place to ensure compliance with our regulatory obligations. This is supported through our Enterprise Risk Management Framework by oversight and monitoring activity to evidence compliance.

As part of our ongoing supervision by the PRA, the PRA helped us identify potential inconsistencies in our regulatory reporting. Following this, we conducted an internal review of our risk-weighting of certain commercial loans, supported by one of the big four professional service firms. This work identified that some adjustments were required to our RWAs. On 26 February 2019, we received notification that the PRA and FCA is investigating the circumstances and events that led to the RWA adjustment. We are satisfied that the risk weightings have now been assigned properly. We are continuing to work on further enhancements to our systems and controls.

Monitoring
As an industry we are increasing regulatory obligations including minimum requirements for own funds and eligible liabilities ('MREL'), IFRS 16, IFRS 9, the second Payment Services Directive ('PSD II'), Open Banking and General Data Protection Regulation ('GDPR'). The Board and Senior Management are focused on responding in a timely and effective way to these changes including ensuring we are appropriately resourced and have sufficient capability in these areas.

7. Conduct risk

Definition

Conduct risk is the risk of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.

For more information on our strategy please see pages 10 to 11

Change since 2017:
No change

Link to strategy:
Unique culture

Appetite and mitigation

Appetite
We have no appetite for conduct risk. We provide customers with simple, fairly priced products delivered with unparalleled levels of service and convenience and we are committed to avoiding materially unfair outcomes for our customers.

Simple and transparent products
Our simple, transparent product range and activities continue to help ensure that customer outcomes are fair. Our colleagues are fully trained in all relevant products and services and these are delivered to our customers through all channels, with openness and transparency. We believe in looking after our existing customers and will never offer teaser rates or better rates for new customers that aren't also available to our existing customers. Our products are reviewed regularly to ensure they continue to meet customer needs and operate as expected. We do not undertake any financial promotions or marketing and are committed to ensuring that our communications are clear, fair and not misleading. Sales incentives in stores neither exist nor are perceived by colleagues to exist.

Make every wrong right
Our service-led business model and absence of legacy issues give us an inherent advantage. We are committed to doing the right thing for our customers and to making every wrong right.

Measurement and monitoring

Measurement
We measure and monitor conduct risk through product governance activity, compliance monitoring, analysis of expressions of dissatisfaction, root cause analysis and reporting through customer treatment fora. We also use our 'Voice of the Customer' surveys to inform continuous improvement activity. Key performance Indicators are also defined, reported against and escalated to the ROC.

Monitoring
The simplicity of our offering drives a low level of reportable complaints, below the industry average. As well as monitoring the trends in the metrics outlined above we constantly analyse the root cause of complaints and any underlying trends, to identify opportunities to improve service provision while delivering consistently fair outcomes for customers.

8. Model risk

Definition

Model risk is 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 and there are therefore risks associated with using them. These risks range from their theoretical basis, the data and methods used in their construction, the economic conditions under which they are developed, and their use.

Change since 2017:
New risk

Link to strategy:
Diversified low-cost deposits

For more information on our strategy please see pages 10 to 11

Appetite and mitigation

Appetite
There is a low appetite for model risk. This is defined as part of our overall risk appetite and is regularly monitored by the CRPAC and ROC. All models are evaluated on the basis of our model governance framework and detailed procedures and target operating models are in place to manage the risk.

Governance
CRPAC is the designated committee for the management of model risk. The Model Governance Committee ('MGC') is the technical committee overseeing the model risk lifecycle. Any material model is presented to the CRPAC for approval ahead of implementation or model changes.

The CRPAC defines and approves the policies and procedures relevant to model risk and approves the model risk appetite on an annual basis. The MGC owns the minimum standards and target operating models to mitigate model risk and also defined roles and responsibilities, with clear ownership and accountability.

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.

Independent review
An independent model validation function is part of the Enterprise Risk Function. This team is independent from the Model Development team and is responsible for reviewing the model development submissions and maintains a model validation action log to track model risk mitigation plans. Models are also subject to internal and external audit.

Measurement and monitoring

Measurement
A set of KPIs are regularly reported and discussed at the MGC, CRPAC, ROC and Board. On a monthly basis the CRPAC reviews any material validation actions and tracks their completion.

Monitoring
A dedicated Model Monitoring team are responsible for assessing the ongoing performance of models against pre-specified tolerances approved by the CRPAC as part of the model monitoring standards. Model monitoring is regularly performed and results are discussed at the MGC and CRPAC where actions are agreed and tracked for completion.

In addition to our principal risks, we monitor other potentially significant or emerging risks

Credit cycle/cyclical risk

The credit cycle is the expansion and contraction of access to credit over time. Credit cycle risk is the risk of our customers not being able to access credit in adequate quantities when required, causing pressure on their cash flow and ability to meet credit obligations when due.

Cycle risk is systemic, affecting a number of providers of finance, but also idiosyncratic, affecting specific individuals, businesses and sectors. It typically does not have a tangible measure.

Credit cycles tend to drive the economic cycle which, over a period of time, has four distinct stages.

- Economic growth when credit is readily available
- Cycle peak when credit availability exceeds the underlying market demand causing over-gearing
- Economic contraction when credit availability is restricted
- Cycle trough when credit is severely restricted preventing economic growth

It is widely accepted in the absence of a more direct measure that the impact of credit cycle risk is instead reflected in the value of real estate assets.

Management and mitigation are achieved through our robust lending policies ensuring appropriate customer gearing levels are maintained throughout the credit cycle. Additionally, the performance of individual exposures and the quality of supporting real estate assets and other tangible assets are monitored regularly.

Portfolio monitoring and analysis are governed by a set of credit risk appetite metrics measuring key areas such as performance and sector concentrations. Portfolio monitoring reports are provided monthly for review and challenge at senior management and Board level.

Cyber risk

Cyber risk management continues to be an area of key focus. We aim to maintain robust cyber security systems and control measures, and seek a low level of risk in both of these areas.

To mitigate the risk we combine traditional information security controls with a cyber intelligence capability, and a proactive partnership with law enforcement. We continue to develop and embed our approach to managing cyber risk across the Bank, learning from intelligence sources and industry peers to identify new and emerging cyber risks. We use a combination of automated tooling metrics with intelligence-led insight to manage our cyber risk profile, enabling us to stay ahead of the continuously evolving threat of cyber threats in order to protect our customers and the Bank.

Operational resilience

Recent disruptive events across the financial services industry, and beyond, evidence the importance of safe, resilient operations. Increasing external complexities compound the risk exposure across the industry. In response we are committed to investing in the continued enhancement of resilience controls and capabilities, so that we can continue to deliver consistently excellent service to our customers.

These areas of resilience are likely to remain high on the regulatory agenda, alongside changes in the macroeconomic environment. The FCA has highlighted to retail banking firms its view of the need to focus on increased technology-related resilience risks, while the PRA requirements on Operational Continuity in Resolution came into effect on 1 January 2019. We expect that this will lead to additional regulatory supervision activity in 2019 and beyond.

Culture

A culture that truly focuses on creating FANS and exceeding customer expectations will deliver great outcomes for customers. This focus on exceeding customers' and colleagues' expectations by delivering unparalleled service creates an emotional attachment to our brand... it creates FANS! Several years of successful growth, market-leading net promoter scores and fantastic customer retention demonstrate how our culture sits at the heart of our business model.

We are one team aligned to a single purpose: creating FANS. Embedding our culture, and reinforcing the behaviours that support it, is what sets us apart. Our culture is the fabric of who we are, and it is why we are different. A group of people creating FANS by doing the right thing for customers.

RISK REPORT CONTINUED

Economic conditions: Brexit

The UK economy continues to face uncertainty resulting from the UK decision to leave the EU ('Brexit'). Brexit poses a risk to the UK economy in the short, medium and long term. It includes the risks of withdrawal from the EU, negotiating new trade agreements and foreign investment.

Underlying economic performance across the UK has, since the referendum, been better than initially projected. In 2018 employment levels have improved and wage growth has outpaced inflation. There have been some property price decreases in London and the South East and we expect house prices to remain subdued with low turnover. The overall picture supports a view that conditions for lending in the consumer markets are stable, albeit with head winds for reduced growth.

Business investment continues to wane and there are continuing structural changes to the retail sector and some healthcare sectors. We continue to monitor external projections. Our impairment provision outlook includes an additional scenario and higher weighting that reflects a worsening outlook for the economy. Using these and more severe outlooks we have stressed the lending portfolios to provide a view on how the business may perform and thus ensure sufficient levels of capital and liquidity.

Direct operational impacts on us from EU exit are limited but we are aware of indirect effects on our colleagues and customers. We believe the UK's continued provision of innovation and high-value services, the weaker pound and the relatively flexible labour market should enable the UK to prosper longer term.

UK exit from the EU creates a largely binary economic outlook. Our assumptions on credit losses attempt to reflect this on a probability basis. Whilst there is a risk of greater volatility in the first two quarters of 2019, we expect a lingering drag on the UK economy for some time.

Regulatory change

The range and complexity of regulations with which the Bank is required to comply has increased, and this continues into 2019.

During 2018, several key initiatives to implement regulatory changes were significantly progressed or completed. Notably, these included GDPR, PSD2 and the implementation of new measures required by the Competition and Markets Authority ('CMA'), including the CMA inaugural service quality results.

Our culture, built on transparency, fairness and customer focus, sits at the heart of how we deliver our vision and strategy, and this is implicit in our approach to delivering regulatory change. It is the essence of who we are, and it helps us to meet our legal and regulatory commitments.

Technology and infrastructure

We continue to evolve our ability to deliver superior service to our customers through our integrated technology stack. Continuous improvement of our technology infrastructure is essential to our effective management of the risks associated with our rapid growth and the expansion of our physical and digital footprint.

In 2018, we have invested heavily in our continued relationships with key technology partners alongside our investment in our mobile and digital capability, which we also use to support our colleagues to exceed customer expectations in our Stores. In recognition of this, we delivered significant enhancement to our vendor management tooling and capability, with a particular focus on automating our risk-based approach to managing key controls for core operational activities, such as onboarding, contracts and security.

We are uniquely positioned by combining a streamlined approach to the number of systems we operate, and our lack of legacy technology. Looking to the future, our agility will be further increased with investments in upgrades to our core banking platform and a single Operational Data Store ('ODS'). This accompanies the delivery of in-flight work to build new architecture aligned with our customer journeys and touch points.

Data privacy

GDPR came into force on 25 May 2018 and introduced new requirements on data protection and privacy to transform the way in which personal data is collected, shared and used.

Our GDPR programme was established in 2016, with the clear objective of achieving compliance through the delivery of a series of proportionate risk-based changes. Our policies now include data privacy principles; we have invested in systems to store our records of processing activities, manage our supplier risk and enhance our information security capabilities; we have invested in building capability in our people and created the key colleague roles to fulfil our obligations; and enhanced colleague training and expert support on data privacy embeds in our philosophy to protect our customers, as we continue to service our FANS by ensuring we keep their personal data safe and secure.

MREL

The Bank of England ('BOE') promulgated MREL in 2016. UK firms will become subject to interim MREL requirements from 1 January 2020 prior to the final requirements coming into force in 2022.

Holding MREL is a requirement placed on larger firms to ensure that in the event of their failing and requiring resolution by the BOE, their customers continue to have access to their funds, and the operation of their accounts will not be affected.

This requirement will mean that our MREL requirement will be above its regulatory capital requirement and the Bank is therefore working to ensure it will be compliant in good time.

Strategic

Risk to delivery of Metro Bank's strategic objectives is influenced by a number of competing external factors. These include: the need to deliver performance consistent with stakeholder expectations against a backdrop of significant regulatory change, which drives increased cost and operational burden; ongoing regulatory and macroeconomic uncertainty that requires regular review of planning assumptions; and a disruptive market environment characterised by significant technological change that requires ongoing investment in digital platforms to enable us to fulfil customer expectations across all channels. To manage these influences, we seek to identify any linkages and overlaps between each of our principal risk categories and the relevant emerging risks; and then develop appropriate action plans to ensure we deliver and sustain:

- our unique differentiated culture;
- our integrated model;
- diversified low-cost deposits; and
- low-risk diversified lending; whilst creating FANS for life.

We have a well-established annual planning process. The annual business plan is developed in the context of a seven-year plan that sets out the longer-term growth trajectory of the Bank. Both documents are presented to the Board for discussion and approval. Execution against the annual plan is frequently monitored by management and the Board to assess performance against the stretching targets we set ourselves. Additional oversight is provided by the Risk Oversight Committee, which considers the Bank's growth and strategic delivery plans within the context of our risk appetite statement, and the resulting risk profile. Our strategic goals are described on pages 10 and 11.

Viability statement

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

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

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

The raising of qualifying debt to meet regulatory minimum requirements for own funds and eligible liabilities ("MREL") will require some changes to the organisational structure of the group, as well as various regulatory approvals in the medium term.

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

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

ENVIRONMENTAL AND SOCIAL SUMMARY

Applying our AMAZEING values to everything we do

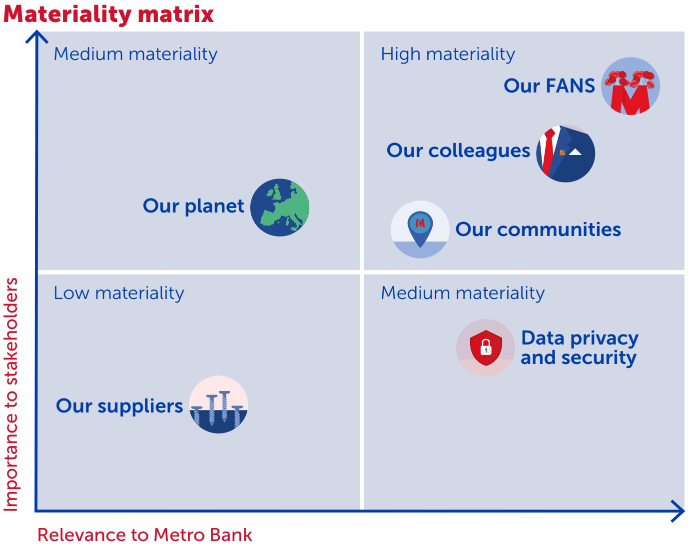
Creating and maintaining FANS is at the heart of everything we do, so our approach to environmental, social and governance ('ESG') policy at Metro Bank is simply about doing the right thing. We focus on putting FANS first, making Metro Bank a great place to work, supporting our communities and managing other impacts such as on the environment. Our AMAZEING culture is aligned to this and of course we are open and transparent about our responsible business activities.

Our priorities

In 2017 we worked with Deloitte to assess our material ESG priorities to inform our reporting on responsible business, and to highlight potential risks and opportunities that might inform the decisions we make. The priorities for this year remain unchanged:

Priorities	Description	More info
1 Our FANS	Providing excellent service each and every time	p.46
2 Our colleagues	Creating FANS by providing excellent service to each and every customer	p.47-48
3 Our communities	Engaging with the communities we proudly serve	p.49
4 Data privacy and security	Protecting our customers' data just as we do their money	p.50
5 Our planet	Being aware of our impact on the environment	p.50
6 Our suppliers	Working with suppliers whose values and behaviours are aligned to ours	p.51

Materiality matrix



The ESG landscape is evolving rapidly and we will need to adapt proactively in order to remain a sustainable business.

Oversight of ESG is at a Board and Executive team level, who approve the policies and procedures by which we operate. In addition, the Board is responsible for setting the Bank's strategic direction, which has a major impact on our ESG priorities and how we manage them.

Ultimately, our AMAZEING behaviours underpin our belief that we should act with integrity, putting our customers and stakeholders first, whilst being the most professional bankers. We know that by living by our AMAZEING behaviours, we will continue to do the right thing by our stakeholders every single day.

How we engage with our stakeholders

Our long-term success depends on creating value for our customers and wider stakeholders. Knowing what matters to stakeholders helps us to evolve our vision and approach, keeping them at the heart of what we do. In light of incoming statutory reporting requirements and the revised UK Corporate Governance Code, during 2019 we will review the stakeholder engagement activities we undertake, how we use this information in Board decision-making and our reporting on stakeholder engagement.

Stakeholder group	Why they are important to us	How we have engaged with them during 2018
Customers and the communities we serve	Our business model depends upon attracting customers and turning them into FANS. Our reputation and creating FANS is at the core of our values.	• 'Voice of the customer' surveys • Expressions of dissatisfaction responses and analytics • New store grand openings • Money Zone, our educational programme • Networking and community events • Days to AMAZE volunteering
Colleagues	As a fast-growing business we constantly need to attract new talent. We also want to ensure our existing colleagues are happy and engaged.	• 'Voice of the colleague' surveys • Have your say café, colleague meetings with leaders • Online Q&A with leadership (Yam Jams) • Internal news (Revolution Updates) • Metro Bank University
Investors	Our equity and fixed-income investors are fundamental to our growth. They continue to support the Bank, helping us bring the revolution to more and more FANS.	• Annual General Meeting • Quarterly results meetings • Investor roadshows and conferences • Proxy adviser and institutional investors meetings • Governance breakfasts • Annual Report
Regulators	Following our Regulators' Principles, Rules and Guidance helps us to make sure we put customer outcomes at the heart of everything we do.	• Meetings with the Prudential Regulation Authority, Financial Conduct Authority, Payment Systems Regulator and Bank of England
Suppliers	We pride ourselves on doing the right thing and maintaining the highest values in everything we do and this extends to the suppliers we work with.	• Procurement • Meeting with suppliers • Site visits

ENVIRONMENTAL AND SOCIAL SUMMARY CONTINUED

OUR FANS

At Metro Bank we are committed to customer service and creating and maintaining FANS is at the heart of everything we do. We offer simple products that meet the personal and business needs of our customers.

Our business is built on our FANS recommending us to their friends, family and colleagues, so it's really important to us that we provide great service every day. This year Metro Bank was proud to achieve the top spot in the Competition and Market Authority's ('CMA') Service Quality Survey among personal current account holders for its overall service. We also came second among business current account customers for overall service quality and were ranked in the top five for all qualifying business and personal services.

We monitor our customer service through our 'Voice of the Customer' survey and analytics programme to make sure we are surprising and delighting all our FANS and delivering the best customer service every single day.

We want all our customers to be FANS and we recognise and value our diverse customer base. We support our vulnerable customers and we work hard to train our colleagues to make sure they give the best advice and support, with customers at the heart of everything we do.

OUR COLLEAGUES

Our culture and our AMAZEING behaviours are at the heart of our business. It is so important that it's the first thing our colleagues learn about when they join the Bank in our two-day cultural immersion programme, Visions.

We want Metro Bank to be a place where everyone can be at their best, and our inclusive approach celebrates diversity. Our colleagues represent the communities we serve and the locations where we're based. This year we are proud that Glassdoor announced that we were the best bank to work for in the UK and that we ranked in the top 25 of all UK businesses. Glassdoor also named Craig Donaldson as one of its top 10 UK CEOs of 2018, as part of its 'Employees' Choice Awards'.

Colleague networks

Our colleague networks, include Women on Work ('WOW'), Mpride for our LGBT+ colleagues and Mbrace for our Black, Asian and Minority Ethnic ('BAME') colleagues. All groups are open to all colleagues, regardless of race, gender or sexual orientation and all have the aim of helping everyone be their very best.

Our AMAZEING behaviours

A **Attend to every detail**

M **Make every wrong right**

A **Ask if you're not sure – bump it up!**

Z **Zest is contagious, share it!**

E **Exceed expectations**

I **Inspire colleagues to create FANS!**

N **Nurture colleagues so they grow**

G **Game-change because this is a revolution**

The networks hold a variety of internal and external events that provide support to network members and raise awareness across our business. For example: MPride held an event on 'LGBT+ Myth Busting'; MBrace held one on 'Why is diversity in the workplace important?'; and WOW held a number of 'Confidence in the Workplace' events.

Each network is supported by an Executive Sponsor, providing a link between the inclusion networks and senior management. Our Inclusion Committee oversees the activities of our three inclusion networks and facilitates an intersectional approach to our diversity and inclusion activities.

Through the work of MPride, we've received a number of awards and nominations. Most recently we have been:

- shortlisted for 'Most Inclusive Organisation', British LGBT+ Awards 2019
- shortlisted for 'National Top 10 LGBT+ Network', British LGBT+ Awards 2019

Ethnic diversity at Metro Bank

Asian British	24.5%	Mixed Other	2.3%
Asian Other	7.1%	White British	41.0%
Black British	8.1%	White Irish	0.7%
Black Other	2.2%	White Other	8.6%
Mixed British	2.4%	Undisclosed	3.1%

Gender representation by grade

Directors	Senior managers	All colleagues
2 (17%)	3 (38%)	1,790 (46%)
10 (83%)	5 (62%)	2,109 (54%)

All figures are as at 31 December 2018. Senior managers consists of colleagues who have responsibility for planning, directing or controlling Metro Bank or a strategically significant part of it. We define this to be members of the Executive Leadership Team excluding Executive Directors (who are included within the Director figure).

We are a signatory of the Women in Finance Charter and are working towards achieving a target for 35% of our senior management population to be female by 31 December 2020, in line with the Hampton-Alexander review. Variable remuneration at Metro Bank features incentives linked to the diversity of our senior management population.

ENVIRONMENTAL AND SOCIAL SUMMARY CONTINUED

During 2018 we published our gender pay gap figures for the first time, in line with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. Further information on our gender pay gap figures can be found in the Directors' Remuneration Report on pages 81 to 97.

We have a range of initiatives focused on supporting women into leadership roles. As well as our Women on Work network (see above), we run mentoring programmes and leadership training and provide diverse candidate lists to hiring managers. We also offer flexible working arrangements and 14 weeks' parental leave for all new parents, regardless of gender.

Our latest Gender Pay Gap Report can be found at metrobankonline.co.uk

Listening to colleagues

We work hard to understand how our colleagues feel about Metro Bank as an employer, as a place to work and as a provider of banking services. Every year we run a 'Voice of the Colleague' engagement survey. In our 2018 survey, over 90% of colleagues took the time to share their views. We use the results to help us to continuously improve our colleagues' experiences.

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

Headlines from this year's survey:

- 94% of colleagues feel Metro Bank is an inclusive employer and that they can be themselves at work
- 96% of colleagues understand how their role contributes to the overall success of Metro Bank
- 95% of colleagues feel encouraged to escalate an issue, or 'bump it up'
- 96% of colleagues think that Metro Bank is a good place to work

We also hold regular 'Have your say Café' sessions to allow colleagues the chance to raise any concerns they have with senior members of the Bank. During 2019, we intend to review our workforce engagement activities to ensure we are engaging with the workforce, and using colleague feedback in a manner consistent with the relevant principles and provisions of the revised UK Corporate Governance Code.

Developing careers

During the year, we created over 800 new jobs and promoted more than 730 colleagues. We're committed to supporting colleagues and investing in their careers, and over the past 12 months have helped 90 new leaders 'Learn to Lead', supported over 280 colleagues on fast-track schemes and specialist studies, and enabled 445 colleagues to gain professional banking qualifications.

Also in 2018, we partnered with leading business school Cranfield University, to launch an MSc in Retail and Digital Banking, which provides the Chartered Banker Diploma on completion. We are thrilled to be supporting over 30 colleagues from across the Bank to complete this qualification as well as continuing to support the apprenticeship programme already on offer at Metro Bank. This programme has seen over 70 apprentice cashiers join since we became an accredited Employer Provider at the end of 2017.

By empowering colleagues and creating the conditions for them to exceed customers' expectations, we allow them to thrive.

Rewarding and retaining our colleagues

We know that our colleagues are integral to growing our business. Our reward principles, which reflect this and apply to all colleagues, are designed to reward our colleagues for high performance and retain the talent upon which our business depends:

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

Health, safety and wellbeing

All colleagues benefit from health and safety training when they join Metro Bank. Colleagues are encouraged to participate in mental health awareness training and also have access to Employee Assistance and the independent and confidential Bank Workers Charity contact line that provides information, advice and expert support services.

Our Health and Safety policy protects our customers and colleagues and ensures we are compliant with our statutory duties and responsibilities.

Policy

The Board's Nomination and Remuneration Committees set policy and monitor implementation relating to their areas of responsibility.

Our Whistleblowing Policy ensures that all colleagues are encouraged to raise any concerns they may have about the conduct of others in the business or the way in which the business is run in good faith and without fear of unfair treatment. This protects our colleagues and customers both of whom are integral to the continued success of the Bank.

OUR COMMUNITIES

We are proud to be an integral part of the communities we serve. Stores are key to our unique model and we strive to make a positive difference: through the local colleagues we employ, the local businesses we lend to and the causes we support. By helping our communities thrive we believe our business will do too.

This year Metro Bank has opened 10 new stores, contributing to the revitalisation of high streets and their local communities in the UK and giving customers access to face-to-face banking, while our competitors are progressively closing their branch networks. Metro Bank opens each new store with a grand opening, where we invite the local community to come and see our new store and meet our colleagues. We believe that Kids Rock! and Dogs Rule! and we want to make sure everyone can come and visit us in store, so we have customer toilets with baby changing facilities in every store as well as dog treats and water bowls for our canine FANS.

We are passionate about working with the kids in our communities. As well as hosting free Halloween, Easter and Christmas craft events, we also engage with kids through our free financial education programme, Money Zone. Money Zone introduces pupils to financial skills, helping them understand how money, saving and banking work. Our sessions are incorporated into the school curriculum, and are linked to the wider government curriculum guidelines. In 2018 over 41,000 young people have been through the scheme.

Metro Bank's official charity partners for 2018 are Alzheimer's Society and Place2Be. Our colleagues have taken part in various fundraising events through the year, raising over £140,000, and our customers have helped us support these charities through donations via our Magic Money Machines.

We also clocked up hundreds of hours of volunteering in our 'Days to Amaze', where our colleagues give time out of their working day to support the causes close to their hearts.

ENVIRONMENTAL AND SOCIAL SUMMARY CONTINUED

DATA PRIVACY AND SECURITY

Protecting our customers' data, just as we do their money, is central to building the trust of our customers and creating FANS. Our business is built on our FANS recommending us to their friends, family and colleagues and we know how important trust is to them.

We do everything we can to keep our customers' details safe and to reduce the risk of financial crime, both against us and our customers. This includes using market-leading technology, which gives us confidence we are speaking to a genuine customer.

We worked hard to make sure we were ready for the implementation of the General Data Protection Regulation on 25 May 2018 and this included a full review of the Metro Bank Data Policy.

Fraud prevention

At Metro Bank we take the protection of our customers, their money and the bank extremely seriously. We apply a multi-layered approach to fraud controls in the majority of areas. An example of this is where we have invested heavily in leading technology to allow the risk assessment of sessions for our Remote Channels, providing strong protection.

To raise fraud awareness with our FANs we've undertaken a number of campaigns to share how they may be targeted by fraudsters and the actions they can take to protect themselves. We continue to support the Take 5 industry-wide fraud campaign.

OUR PLANET

We know that climate change will bring unprecedented change for our FANS and the global economy. That's why we want to make sure that we make it easy and convenient for our FANS to reduce their environmental impact and minimise our own impact on the planet as we bring the revolution in British banking to more and more FANS.

As we've increased our network of stores and more FANS have joined us, we've seen a 2.7% increase in absolute GHG scope 1 and 2 emissions in 2018 from the baseline year, 2016 (see below). But this hides the improvements we've made on carbon intensity: our emissions have reduced by 34.7% per full-time equivalent employee over the same period.

We're continually looking for ways to reduce our energy consumption as we open new stores. Some of our initiatives include:

- new store designs, featuring additional solar filament to reduce heat gain, thereby reducing the need for air conditioning;
- implementing a tool to reduce the power usage of desktop computers if they are left on overnight;
- installing energy efficient LED lighting in our stores;
- turning some store signage off overnight;
- adjusting store door heating; and
- operating a small fleet of company vehicles, the majority of which are hybrids.

We also have a number of initiatives seeking to reduce levels of waste and water usage, including:

- engaging a supplier that sends zero waste to landfill to handle over 90% of our waste;
- installing hand dryers in store washrooms and installing single-leaf dispensers to reduce paper waste; and
- installing percussion taps, where possible, in bathrooms to minimise water usage.

As outlined on pages 8 and 9, enabling our FANS to manage their finances online, on our app and over the phone, is integral to our business model. The development of these services has not only reduced excess waste by enabling paperless banking, but also has reduced the need to come into stores to access our services, thus helping to reduce the carbon footprint of our FANS.

We believe our straight-forward business model increases our resilience to climate-related risk. Our focus on supporting small and medium-size enterprises, exclusively based in the UK, helps to mitigate our exposure to material international environmental risks. We consider a variety of issues when working with new customers, including exposure to high-risk industries. Such industries include mineral extraction, where for example, any decision regarding the account would require further investigation and escalation to management.

We nonetheless recognise that the transitional risks posed by climate change will impact our FANS and the markets we operate in. We are committed to undertaking further work to understand the risks and opportunities for Metro Bank arising from climate change.

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

Summary table for GHG emissions

GHG emissions	2018 (CO_2e)	2017 (CO_2e)	2016 (CO_2e) baseline year
Scope 1 emissions	2,306	1,312	1,160
Scope 2 emissions	4,064	4,668	5,044
Total Scope 1 and 2 emissions	6,369	5,980	6,204
Full-time employees (FTE)	3,803	3,002	2,417
Total Scope 1 and 2 emissions per FTE	1.67	1.99	2.57

The assessment period is aligned with our financial year – 1 January 2018 to 31 December 2018.

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

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

The table above includes restated figures for our total annual emissions for 2016 (baseline year). These figures were published correctly in the 2016 Annual Report and Accounts, but then restated in 2017 Annual Report and Accounts using 2017 emissions factors. The figures published last year in relation to 2017 are unaffected. We have restated these figures here to accurately reflect our emissions in each period.

OUR SUPPLIERS

Our business model is built on creating FANS, and actions by our suppliers that are not in keeping with our values expose us to reputational damage and risk through association. We manage this by reviewing the controls put in place by our suppliers to prevent and detect bribery, corruption, modern slavery, child trafficking, unfair wages, unacceptable working conditions and labour rights abuse.

Metro Bank is committed to introducing responsible business practices that make it easier for our suppliers to do business with us. We are a member of the Financial Services Supplier Qualification System ('FSQS'), a collaboration between UK financial institutions (buyers) to provide a standard and simplified process for suppliers to give detail about the control environment they operate. FSQS helps our suppliers by reducing duplication of effort in responding to buyer due diligence requests, and benefits us by sharing resource and best practice with other buyers.

Anti-bribery and corruption

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

We use FSQS to conduct due diligence on our suppliers before contracting, on a risk basis, as appropriate.

We also protect our customers and the Bank by setting out and regularly training our colleagues on our Anti-Bribery and Corruption Policy. This helps us to make sure all our colleagues are conducting business in an honest and ethical manner, which reflects our zero-tolerance approach to bribery and corruption.

Modern slavery

Our philosophy is to conduct all business in an appropriate manner. Slavery, servitude, forced labour and human trafficking (modern slavery) is a crime and violation of fundamental human rights. We have zero tolerance of modern slavery and continue to be committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

During 2018 we continued to follow and progress our processes to support our Modern Slavery Policy, including:

- publishing Metro Bank's second Modern Slavery Statement, approved by the Board and signed by Craig Donaldson, CEO, on our website in June 2018 (metrobankonline.co.uk);
- delivering the first report of the Modern Slavery Champion, to the Board in May 2018, updating on progress against the Modern Slavery Statement and the Action Plan established in 2017;
- further developing FSQS to conduct due diligence on suppliers before contracting, on a risk basis, as appropriate. In addition, through FSQS, we are engaging with suppliers to identify those who have modern slavery guidelines in their policies and standard terms, those who conduct regular risk assessments in relation to modern slavery, those who undertake modern slavery training and seeking attestation that they have not been investigated or convicted of activities relating to modern slavery. As a result, during 2018, we identified 85 suppliers with revenue in excess of £36 million and, of those, 51 who had published a Modern Slavery Statement and six who intend to publish one. In 2019 we will start the process of following up, on a risk basis, with those suppliers who have not yet published a statement; and
- signing up to the Home Office contact database for modern slavery reporting guidance and resources in November 2018.

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

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

1 Our FANS 2 Our colleagues 3 Our communities 4 Data privacy and security 5 Our planet 6 Our suppliers

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

Non-Financial Information Statement

This is our Non-Financial Information Statement, prepared in order to comply with sections 414CA and 414CB of the Companies Act 2006. We explain here where you can find further information on how we make sure we do the right thing in relation to wider society and the environment and how we seek to do the right thing in terms of our impacts.

A description of our business model and strategy, as well as the non-financial Key Performance Indicators ('KPIs') relevant to our business can be found on pages 8 to 11. Additional KPIs in relation to each of the matters listed in the table below have been disclosed in the corresponding section of the Environmental and Social Summary, where we believe this will assist in demonstrating the outcomes of our policies and activities during 2018.

Reporting requirement	Where to find further information necessary for an understanding of our business and our impacts, including outcomes of our activities	Relevant policies (please see page 52 for a description of each policy)
Environmental matters	Our Planet, page 50	Our comprehensive risk management processes and ESG materiality assessment (see below) have not identified environmental matters or climate change as a principal risk for the business. So, at present, we do not have a bespoke environmental policy. We do, however, recognise the need to minimise our impact on the environment and manage any material impacts from climate change on our business. As disclosed in the Our Planet section of this summary, we have successfully driven progress in our environmental performance to date without the need for a bespoke policy. We will continue to review the appropriateness of this approach.
Employees	Our Colleagues, page 47 The Chief Executive Officer's statement (page 3) and the description of our business model (page 8), articulate how our colleagues are an essential component of our success.	• Diversity and Inclusion • Recruitment and Selection • Health and Safety • Whistleblowing • Conflicts of Interest and Related Parties
Society and Communities	Our Communities, page 49	As outlined in the communities section of this report, we are proud to be an integral part of the communities we serve. At present, we do not pursue a bespoke policy regarding our activities with the wider communities but stores are key to our unique model and we strive to make a positive difference: through the local colleagues we employ, the local businesses we lend to and through the causes we support. By helping our communities thrive we believe our business will do too.
Respect for Human Rights	Our Suppliers, page 51	• Modern Slavery • Outsourcing
Anti-Bribery and Corruption	Our Suppliers, page 51	• Anti-bribery and Corruption

Management of principal risks and due diligence for ESG policies

We manage risk through a comprehensive governance and control framework, as described in our Risk Report on pages 28 to 43. The Risk Report also describes the principal risks to our business. Our risk management policies and controls are reviewed regularly to reflect changes in market conditions, regulations and our activities. Through regular training and additional standards, guidance and procedures, we aim to develop a robust and effective control environment in which all our colleagues understand their roles and obligations. The policies disclosed on page 52 form part of our wider risk management approach. All colleagues are responsible for managing risk as part of their day-to-day role and our AMAZEING culture is all about our colleagues doing the right thing for our FANS and the business. As such, everyone at Metro Bank plays a role in risk management.

Management exercises an appropriate level of due diligence over the policies and activities referenced in the Environment and Social Summary and this Non-Financial Information Statement. Our reporting on environmental and social matters is subject to the oversight of the Audit Committee.

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

Craig Donaldson
Chief Executive Officer
10 April 2019

CORPORATE GOVERNANCE OVERVIEW

David Arden, Company Secretary and Chief Financial Officer

Continuing to provide prudent oversight as we grow

I set out Metro Bank's Corporate Governance Statement, and my first report since being appointed in March 2018. It's been a busy and rewarding year for Metro Bank, although not without its challenges. I'm pleased with the progress we are making as we mature as a listed company.

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

Looking forward, we welcome the implementation of the new 2018 Code (the 'New Code'). At Metro Bank we are, and always have been, a purpose-driven organisation. Our purpose is to create FANS. We put the customer at the heart of everything we do and our pervasive culture and AMAZEING values permeate every area of our business. This has naturally put us ahead of the curve on some areas of the New Code. We have spent significant time this year analysing the New Code and preparing for its implementation.

Progressively refreshing our Board to ensure that it has the right mix of skills, independence, experience and diversity to provide oversight of the Bank as it continues to grow in an evolving and challenging environment is our top governance priority.

We have made significant headway in refreshing the Board during the year. We appointed two new independent Non-Executive Directors ('NEDs'), Catherine Brown, on 1 October 2018, and Paul Thandi on 1 January 2019. Their unique knowledge and skills complement and refresh our already strong and experienced Board. For both Paul and Catherine, we created tailored and detailed induction programmes to fully integrate them into our business and enable them to contribute effectively at Board meetings. We will continue to seek high-calibre independent Board members as part of our ongoing succession plans.

Following nine years of service, Lord Howard Flight retired from the Board on 1 April 2019 and Keith Carby will retire from the Board on 30 April 2019. They therefore will not be standing for re-election at the 2019 AGM. The Board would like to thank Howard and Keith for their significant contributions to Metro Bank during that time.

As a relatively young organisation, a number of our NEDs reached nine years' tenure in March 2019 and we no longer treat those NEDs as independent. The appointment of two new Non-Executive Directors gave us the opportunity to refresh the membership and chairs of our Committees and our Committees are in compliance with the UK Corporate Governance Code's provisions from 1 April 2019. Our Committee Chairs are available to shareholders upon request for any questions they have.

We fully support the recommendations of the Code for independence on Boards. While our balance of Independent NEDs is currently slightly below the 50% minimum, this will be short lived as Keith Carby retires from the Board on 30 April 2019.

From 1 May 2019, the Board (excluding the Chairman) will be made up of 10 Directors of which five (50%), are independent NEDs, in line with the requirements of the New Code. The Board continues its proactive search for additional independent NED candidates and we expect to make another appointment this year.

More detail on the makeup of our Board, Committees and individual Directors can be found in the Nomination Committee report on page 79.

As we reported last year, we carried out an externally facilitated Board evaluation in late 2017. During 2018, the Board reviewed the recommendations from the external evaluation and implemented an action plan to address these. In addition, we also carried out an internal evaluation during 2018 to ensure our Board and its Committees continue to operate at maximum effectiveness. More details on the Board evaluation process can be found on page 65.

I am pleased to report that at the 2018 AGM all resolutions were passed by a majority of 93% or above. Proactively engaging with our investors and stakeholders is very important to us. We met with investors and proxy advisers during the year and we welcomed their feedback as we prepared for the year ahead. Our Committee Chairs are also available to shareholders upon request for any questions they have.

In 2019 and beyond, Metro Bank will continue to grow and increase its digital and geographic footprint. As always, our focus is on bringing the revolution in British banking through our exceptional customer service. Our corporate governance framework will continue to provide prudent oversight of the Bank on this journey.

David Arden
Company Secretary
10 April 2019

BOARD OF DIRECTORS

These references are to Committee memberships during 2018. Details of Board roles and committee memberships as of 1 April 2019 can be found on page 79.

1 Vernon W. Hill, II
Chairman and Founder (N)
Appointed to the Board 18 August 2008
Vernon was the founder and Chairman of Commerce Bancorp, a start-up bank established in 1973 and sold to Toronto-Dominion Bank in 2007 for US$8.5 billion, with US$50 billion in assets and 440 branches. Vernon is involved in banking and non-banking related businesses and voluntary ventures in the US. He is a graduate of the Wharton School of the University of Pennsylvania. Vernon is Chairman of Republic First Bancorp, Inc.

2 Craig Donaldson
Chief Executive Officer
Appointed to the Board 5 March 2010
Craig was previously Managing Director, Retail Products and Direct Channels, of RBS UK. He was also Chairman of the Retail Asset and Liabilities Committee and Retail Product Board and a member of the Retail Board, Retail Risk Committee and RBS UK Asset and Liabilities Committee. He serves on the Board of Directors at TheCityUK as Chairman of the Audit and Risk Committee.

3 David Arden
Chief Financial Officer and Company Secretary
Appointed to the Board 29 March 2018
Prior to joining Metro Bank, David was 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.

4 Stuart Bernau
Non-Executive Director (A), (O)
Appointed to the Board 5 March 2010
Stuart has specialised in financial services for over 40 years, including 13 years as a main Board Director of Nationwide Building Society. He was Chairman and CEO of Chelsea Building Society and has chaired the Council of Mortgage Lenders and the Financial Services Sector Skills Council. He was Special Adviser to the Treasury Select Committee from 2013 to 2015.

5 Catherine Brown
Non-Executive Director
Appointed to the Board 1 October 2018
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 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.

6 Keith Carby[1]
Non-Executive Director (A), (R), (N)
Appointed to the Board 5 March 2010
Keith was formerly Founder and CEO of the Caerus Capital Group. He is Co-Founder and Non-Executive Chairman of both Censeo Ltd and Mill Capital Investment Partners (Dubai), and also Joint Founder and Chairman of AdAlpha Solutions Ltd. Keith was Joint Founder and Managing Director of J. Rothschild Assurance (now St. James's Place). He also co-founded the Financial Services Forum.

7 Roger Farah
Non-Executive Director (R), (N)
Appointed to the Board 1 February 2014
Roger is Chairman of Tiffany & Co. He is a former Executive Vice Chairman of Ralph Lauren Corporation, also its President and Chief Operating Officer. Roger was previously Chairman and CEO of Footlocker, President and Chief Operating Officer of Macy's, Chairman and CEO of Federated Merchandising Services, and Chairman and CEO of Rich's Department Stores. Roger is a Director of Aetna and The Progressive Corporation.

Key to Committees (A) Audit (R) Remuneration (N) Nomination (O) Risk Oversight

8 Lord Flight[1]
Non-Executive Director R, N
Appointed to the Board 5 March 2010
Howard was Conservative MP for Arundel and South Downs, West Sussex, from 1997 to 2005, when he held Shadow posts, including Shadow Chief Secretary to the Treasury. He was a member of the Shadow Cabinet from 2002 to 2004. He was appointed to the House of Lords in 2011. He co-founded Guinness Flight Global Asset Management, and is Chairman of Aurora Investment Trust, Downing Four VCT, and Flight and Partners, a Director of Investec Asset Management and Edge Performance VCT, a Commissioner of the Guernsey Financial Services Commission and Chairman of the EIS Association.

9 Alastair (Ben) Gunn
Senior Independent Director O
Appointed to the Board 5 March 2010
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.

10 Gene Lockhart
Non-Executive Director A, O
Appointed to the Board 5 March 2010
Gene is Chairman and Managing Partner at MissionOG, a venture capital 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 International, and APACS, amongst others. Gene has also been the Chairman of the Board of CHAPS and Director of SWIFT.

1. Howard Flight retired from the Board on 1 April 2019. Keith Carby will retire from the Board on 30 April 2019.

11 Anna (Monique) Melis
Non-Executive Director O
Appointed to the Board 20 June 2017
Monique is a Managing Director and the Global Head of Regulatory Consulting at Duff & Phelps and is a member of Duff and Phelps' Luxembourg Management Company Board. With extensive financial services and regulatory experience across established and growth markets, her appointments have included Executive Board member at Kinetic Partners and roles at the Cayman Islands Regulator and Stock Exchange ('CSX'), the Financial Services Authority and the Securities and Futures Authority.

12 Sir Michael Snyder
Non-Executive Director A, O
Appointed to the Board 22 September 2015
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.

13 Paul Thandi
Non-Executive Director
Appointed to the Board 1 January 2019
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.

More details on the skills and experience of our Directors can be found in the skills matrix on page 61.

DIRECTORS' REPORT

The Directors of the Company who were in office during the year and up to the date of signing the financial statements[1] (and summaries of their key skills and experience) are set out on pages 56 to 57.

The Directors have pleasure in presenting their Annual Report for the year ended 31 December 2018. As set out more fully in the Summary of significant accounting policies within note 1 to the financial statements, this report for the consolidated Group has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and includes the Corporate Governance Report set out on pages 61 to 67.

The Directors consider the Annual Report for the year ended 31 December 2018, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Principal activities

Our principal activities during 2018 were the provision of banking and related services. Metro Bank is a deposit-taking and lending institution with a focus on retail and small and medium-size commercial customers, offering consistent fair pricing and excellent customer service. We're authorised to accept deposits under the Financial Services and Markets Act 2000, have a Consumer Credit Act licence and are members of the Financial Services Compensation Scheme.

Results and dividend

The results for the year are set out in the consolidated statement of comprehensive income on page 105.

No dividend was declared or paid during 2018 (2017: £nil). The Directors do not anticipate declaring a dividend in the near future.

Significant events

Further to the authority granted by shareholders at the 2018 AGM, on 25 July 2018 a further 8,851,304 new ordinary shares of an aggregate nominal value of £8.51 were issued at £34.22 per share. The issue followed the completion of a non pre-emptive cash placing of new ordinary shares, for gross consideration of £303 million. The new shares were admitted for trading on the London Stock Exchange on 27 July 2018.

During the year we also successfully completed a debt issuance which raised £250 million of Tier 2 capital and acquired a portfolio of seasoned UK mortgages for £523 million.

Articles of Association

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

Share capital

Our called-up share capital, together with details of shares allotted during the year, is shown in note 19 to the financial statements on page 132.

There are no restrictions on the transfer of the Company's share capital and there are no shares or stock which carry specific rights with regards to control of the Company. The Directors seek annual authority from shareholders to allot new ordinary shares and to disapply pre-emption rights of existing shareholders in accordance with the Investment Association Share Management Guidelines.

Directors' interests

Details of the Directors' beneficial interests are set out in the Annual Report on Remuneration on page 94.

Directors' indemnities and Directors' and officers' liability insurance

Details regarding deeds of indemnity and Directors' and officers' liability insurance are set out in the Corporate Governance Report on page 67.

Major interests in shares

Information provided to the Group by substantial shareholders pursuant to the Disclosure and Transparency Rules ('DTR') is published via a Regulatory Information Service.

As at 31 December 2018 and up to the last practical date before publication of this report, the Group has been notified under DTR 5 of the interests in its issued share capital, and these are set out in the table below. All such shareholders have the right to vote in all circumstances at general meetings.

As at 31 December 2018	Ordinary shares held	% of total ordinary shares	Direct/ indirect interest
Cohen Private Ventures	7,912,848	9.85	Indirect
Fidelity Management and Research	7,412,558	7.60	Indirect
Ruane, Cunniff & Goldfarb L.P.	5,020,755	5.15	Direct
The Spruce House Partnership	4,925,000	5.06	Direct
Hound Partners	4,915,285	5.05	Indirect
Wellington Management Group LLP	3,641,556	4.53	Indirect

Greenhouse gas emissions

Our energy consumption and associated greenhouse gas emissions during 2018 are set out in the Strategic Report on page 51.

Employee involvement

We encourage employee involvement in the Bank. Increasing employee awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. All employees are eligible to participate in our share option and/or share buy and share pool schemes. More information on our colleagues can be found on page 47 of the Strategic Report.

1. Mike Brierly retired from the Board in March 2018. Howard Flight retired from the Board on 1 April 2019. Keith Carby will retire from the Board on 30 April 2019.

Diversity

Our Diversity and Inclusion policy outlines our commitment to employment policies which follow best practice, based on equal opportunities for all employees. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is not only a key part of a responsible business strategy, but also supports a strong customer experience. We give full and fair consideration to all applications for employment.

During the year, we published our Board Diversity Policy, which sets out our commitment to diversity and inclusion for the Board. At Metro Bank we believe that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, will be a more effective and responsible Board. The policy can be found on our website at www.metrobankonline.co.uk/investor-relations. Going forward, we will report annually against the objectives in the policy.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of employees becoming disabled, we make every effort to ensure that their employment continues and that we provide appropriate training and support. Our policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Modern slavery

We are committed to supporting the communities in which we operate in order to enable them to develop both socially and economically. Our policy is to conduct all business in an appropriate manner and we have zero tolerance for modern slavery. We continue to be committed to acting professionally and fairly in all our business dealings and relationships wherever we operate, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

The initiatives and how we have developed them through during 2018 can be found on page 51. We have also appointed a member of the Board as our Modern Slavery Champion who with the CEO will monitor ongoing compliance with the Modern Slavery Policy.

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

Risk management

The Directors confirm that they have undertaken a robust assessment of the principal risks facing the Group. We seek to manage all risks that arise from our activities. Details of risk management systems and the processes in place in relation to financial reporting, and details of risk management objectives and policies, are shown in the Risk Report on pages 28 to 43. As a result of normal business activities, we are exposed to a variety of risks – and the principal risks and uncertainties that we face are shown in the Risk Factors and Management Report.

Going concern

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

Viability Statement

Our Viability Statement is set out on page 43.

Auditors

During 2018 we carried out an extensive audit tender process. Following completion of a detailed and robust tender process, it was agreed that PwC would be invited to continue to provide external audit services to Metro Bank. PwC has indicated its willingness to continue in office and a resolution seeking to reappoint it will be proposed at the 2019 Annual General Meeting. More details regarding the tender process can be found on pages 71 to 72.

Political donations

We made no political donations in the year ending 31 December 2018 (2017: £nil).

Research and development

We have an ongoing commitment to make banking more convenient for customers, and in 2018 we continued to invest in systems, procedures, products and services. As a result, we have capitalised £70 million of intangible assets.

Post balance sheet events

A summary of the key post balance sheet events is set out in note 32 to the financial statements on page 159.

Annual General Meeting

Details of this year's AGM can be found in the Shareholder Information section on page 166.

Future developments

Our business and future plans are reviewed in the Operating Review.

Listing Rules disclosures

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

Item	Location, where applicable
Detail of long-term incentive schemes	Remuneration Report, to the financial statements note 20
Contracts of significance	Any contracts of significance or related party transactions can be found in note 28 to the financial statements

Corporate Governance Statement

The Corporate Governance Report on pages 61 to 67 in accordance with Rule 7.2 of the Disclosure and Transparency Rules and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' Report.

DIRECTORS' REPORT CONTINUED

Statement of Directors' responsibilities

Our Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors have prepared the Group and Parent Company financial statements in accordance with IFRS as adopted by the European Union and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

The Directors are responsible for the maintenance and integrity of the information included on our website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the disclosure and transparency rules

Each of the Directors, whose names and functions are listed on pages 56 and 57[1], confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group taken as a whole; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditors

Each Director in office at the date of this report, and whose name is listed on pages 56 and 57[1], confirms that to the best of their knowledge:

- there is no relevant audit information of which the Company's auditors are unaware; and
- all reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that the Company's auditors are aware of the information, have been taken.

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

The Directors' Report comprising pages 58 to 60 has been approved by the Board of Directors and signed on its behalf by

David Arden
Chief Financial Officer and Company Secretary
10 April 2019

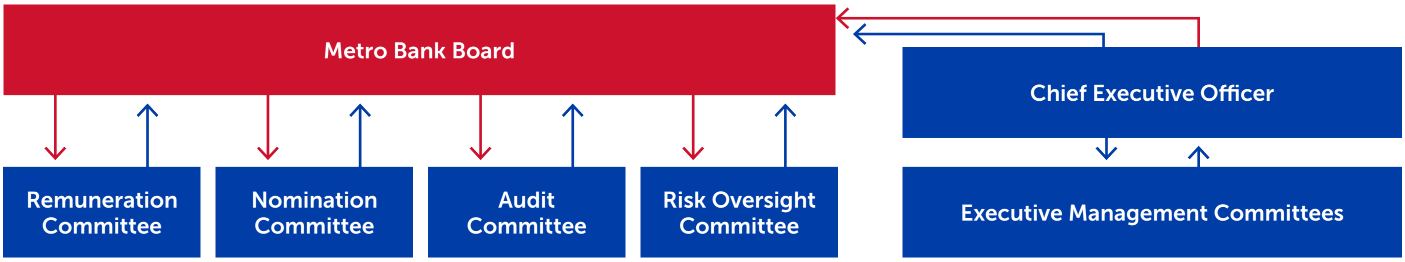
1. Howard Flight retired from the Board on 1 April 2019. Keith Carby will retire from the Board on 30 April 2019

CORPORATE GOVERNANCE REPORT

Governance framework

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

Corporate governance structure



Leadership

The role of the Board

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

The composition of the Board

As at the date of this Report, the Board consists of the Non-Executive Chairman, two Executive Directors (the CEO and CFO) and nine Non-Executive Directors. Howard Flight stepped down from the Board on 1 April 2019.

Board skills as at 31 December 2018

	Skills							
Role	Retail financial services	Credit risk	Financial crime investigation	Governance	Regulatory	Retailing experience	Accounting/ financial incl. audit	Leadership
Vernon W. Hill, II Non-Executive Chairman	✓	✓	✓	✓	✓	✓	✓	✓
Craig Donaldson Chief Executive Officer	✓	✓	✓	✓	✓			✓
David Arden Chief Financial Officer and Company Secretary	✓	✓	✓	✓	✓	✓	✓	✓
Non-Executive Directors								
Stuart Bernau Non-Executive Director	✓	✓	✓	✓	✓		✓	✓
Catherine Brown Non-Executive Director	✓			✓	✓		✓	✓
Keith Carby[1] Non-Executive Director	✓		✓	✓	✓			✓
Roger Farah Non-Executive Director				✓		✓		✓
Lord Flight[1] Non-Executive Director	✓			✓	✓		✓	✓
Alastair (Ben) Gunn Senior Independent Director	✓			✓	✓		✓	✓
Gene Lockhart Non-Executive Director	✓	✓	✓	✓	✓		✓	✓
Anna (Monique) Melis Non-Executive Director	✓		✓	✓	✓			✓
Sir Michael Snyder Non-Executive Director				✓	✓		✓	✓
Paul Thandi[2] Non-Executive Director				✓		✓		✓

1. Howard Flight retired from the Board on 1 April 2019. Keith Carby will retire from the Board on 30 April 2019.
2. Paul Thandi was appointed on 1 January 2019.

CORPORATE GOVERNANCE REPORT CONTINUED

Division of responsibilities between the Chairman and Chief Executive Officer

The Board has formally documented the separate roles and responsibilities of the Chairman and Chief Executive Officer and more detail on this can be found on the Company's website at metrobankonline.co.uk/investor-relations.

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

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

Board role and responsibilities

Role	Responsibility
Chairman	The Chairman leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Company, including overseeing the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of employees. He is responsible for ensuring that there are strong links between the Board and management and between the Board and shareholders. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. He reports to the Board and is responsible for the leadership and overall effectiveness of the Board. A new role of Deputy Chairman was created with effect from 1 April 2019. The role of the Deputy Chairman is to deputise for and support the Chairman in carrying out his responsibilities as leader of the Bank's Board. The Deputy Chairman will act as an ambassador for Metro Bank, particularly in terms of developing and maintaining relationships with our stakeholders, including regulators, and industry representatives. The Deputy Chairman will support the Chairman as required, in carrying out the following responsibilities: • managing the business of the Board and ensuring that the Board operates effectively; • keeping under review, with the Board, the general progress and long term development of the Bank; • representing the Bank and the collective views of the Board externally; and • performing any additional task as agreed with the Chairman.
Chief Executive Officer	The Chief Executive Officer ('CEO') is responsible for the day-to-day management of our operations, for recommending our strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported in decision-making by the Executive Leadership Team. Craig reports to the Chairman and to the Board directly and is responsible for all executive management matters of the Bank.
Chief Financial Officer and Company Secretary	The Chief Financial Officer ('CFO') has responsibility for planning, implementing, managing and controlling all financial-related activities of the Company, both day to day and for the long term. He is responsible for managing the Bank's financial position including allocation and maintenance of capital, funding and liquidity. The CFO also has oversight of the Treasury, Legal, Procurement and Investor Relations functions, and is also responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting. As Company Secretary, David is responsible for advising and supporting the Chairman and the Board on good corporate governance and best boardroom practice. He leads the Bank's Company Secretariat function.
Senior Independent Director	The Senior Independent Directors ('SID') role is to act as a sounding board for the Chairman and to serve as an intermediary for Directors when necessary. The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Deputy Chairman, CEO or CFO. The SID will attend meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of their issues and concerns if contact with the Chairman, Deputy Chairman, CEO or CFO is inappropriate. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chairman and conducts the Chairman's annual performance evaluation.
Non-Executive Director	The role of the Non-Executive Director is to constructively challenge proposals on strategic direction. Each Non-Executive Director brings specific experience and knowledge to the Board and its Committees. The Non-Executive Directors as a whole have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. A skills matrix for the Board can be found on page 61. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture. The Non-Executive Directors were appointed for an initial two-year term but are re-elected on an annual basis.

Independence of Directors

The Board is satisfied that, as at 31 December 2018, all of the Non-Executive Directors were independent. Howard Flight retired from the Board on 1 April 2019 and Keith Carby will retire from the Board on 30 April 2019. They will therefore not seek re-election at the next AGM. The Board is hugely grateful to Howard and Keith for their significant contribution to the Bank, during their tenure.

Ben Gunn, Gene Lockhart and Stuart Bernau have been in place since the Bank was granted its banking licence in 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. Their unique skills, retail banking, risk management and regulatory experience, continues to be instrumental to the growth of the Bank. However, we recognise the UK Corporate Governance Code's recommendations in relation to tenure and independence, and therefore from March 2019 we will no longer treat those Non-Executive Directors as independent.

During 2018, the Board and the Nomination Committee spent a significant amount of time on the Board's long-term succession plan, including the balance of independence, diversity, skills and experience on the Board and have made significant headway in refreshing the Board. We appointed two new independent Non-Executive Directors, Catherine Brown on 1 October 2018 and Paul Thandi on 1 January 2019. We are actively seeking new independent Non-Executive Director candidates and expect to make another appointment within 12 months.

The Chairman is committed to ensuring that at least half of the Board (excluding the Chair) comprises independent Non-Executive Directors who objectively challenge management. While our balance of Independent Directors is currently slightly below the 50% minimum, this will be short lived as Keith Carby retires on 30 April 2019. Therefore from 1 May the Board, excluding the Chairman, will be made up of 10 Directors of which five (50%) are independent Non-Executive Directors, three are non-independent NEDs and two are Executive Directors.

More information on the makeup of our Board, Committees and succession planning can be found in the Nomination Committee report on page 79.

The Board remains mindful of the need for suitable succession, and therefore maintains a clear record of the time each Director has served the Company and the skill-set that they provide. The Directors' skills and experience span a wide range of sectors and specialisms; a skills matrix is shown on page 61.

Vernon W. Hill, II was appointed to the Board in 2008 and as Chairman in 2013. The Board fully recognises its duty to select and support the best Chairman to lead the Bank in the interests of all stakeholders. As the founder of the Bank, Vernon has a unique role. The Board firmly believes Vernon to be the best qualified individual to take the Bank forward and implement the Bank's unique business model as Chairman. The Board fully supports the principle of an independent Chairman, in line with the Code, and will continue to keep under review the role and performance of the Chairman as part of its regular Board evaluation and succession planning processes.

Board attendance at 31 December 2018

	Meetings attended 2018	
	Attended	Maximum possible
Vernon W. Hill, II (Non-Executive Chairman)	10	10
Craig Donaldson (Chief Executive Officer)	10	10
David Arden (Chief Financial Officer and Company Secretary)	10	10
Alastair (Ben) Gunn (Senior Independent Director)	10	10
Stuart Bernau (Non-Executive Director)	10	10
Catherine Brown[1] (Non-Executive Director)	2	2
Keith Carby (Non-Executive Director)	10	10
Roger Farah (Non-Executive Director)	10	10
Lord Flight (Non-Executive Director)	10	10
Gene Lockhart (Non-Executive Director)	10	10
Anna (Monique) Melis (Non-Executive Director)	10	10
Sir Michael Snyder (Non-Executive Director)	10	10
Paul Thandi[2] (Non-Executive Director)	n/a	n/a

1. Appointed 1 October 2018
2. Appointed 1 January 2019

CORPORATE GOVERNANCE REPORT CONTINUED

Matters reserved for the Board

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

Board decisions and activity during the year

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

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

During 2018, the key areas the Board focused on included:

Areas of focus

- Strategic direction
- Cyber resilience, risk monitoring and review
- Compliance, governance, Board composition and evaluation
- Annual and quarterly reporting
- Policy reviews and updates
- RBS Alternative Remedies Package application
- Regulatory and external affairs, PSD and open banking
- Creating FANS
- Capital structure and planning
- Corporate actions
- Digital banking
- New service offering

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

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

Board Committees

The Board has delegated specific responsibilities to each of the Audit, Risk Oversight, Nomination and Remuneration Committees, and reports for each are set out on pages 68 to 97. Each Committee has written Terms of Reference setting out its duties, authority and reporting responsibilities.

Copies of all the Committee Terms of Reference are available on our website: **metrobankonline.co.uk**

We keep the Terms of Reference of each Committee under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. They are also reviewed formally every year by the relevant Committee and the Board. More information on the makeup of our Committees can be found on page 79. Any future changes to the Committees will be made after the review and recommendation of the Nomination Committee.

Effectiveness

The skills and experience of Board members are set out on pages 56 and 57. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

Induction of new Directors

During 2018 and early 2019 we welcomed Catherine Brown and Paul Thandi to the Board. All of our new Directors undergo a formal, robust and tailored induction programme upon appointment which is coordinated by the Deputy Company Secretary. Non-Executive Directors meet the Chairman and the CEO as part of the Nomination Committee's selection process and then again on appointment for a thorough briefing on all relevant aspects of the Company. They also meet the Company Secretary, senior management and our advisers for briefings on their responsibilities as Directors and on our business, finances, risks, strategy, procedures and the markets where we operate.

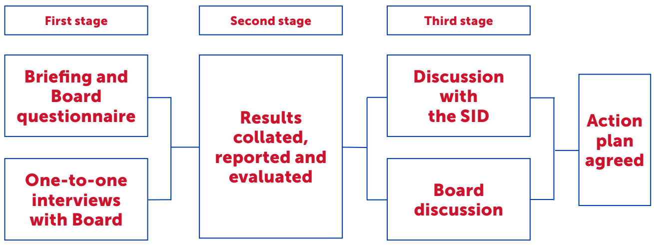
Prior to appointment, all Directors were advised of the time required to fulfil the role and confirmed they could make the necessary commitment. This requirement is also included in their letters of appointment. The Board is satisfied that the Chairman and each of the Non-Executive Directors is able to devote sufficient time to the Company's business. There has been no change in the Chairman's other time commitments during the year.

Performance

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

As we reported last year, in accordance with the UK Corporate Governance Code, the Board conducted an externally facilitated evaluation in 2017. This evaluation was carried out by Deloitte LLP. Deloitte LLP provides certain tax and consulting services to Metro Bank. The Board evaluation was conducted by an independent team and the Board is satisfied that the advice received was challenging, objective and independent.

External Board evaluation process



Deloitte LLP observed a number of strengths and identified some areas for improvement. The Board agreed an action plan to address these areas and reviewed progress against the plan during 2018. The actions from the 2017 evaluation are now largely complete. The key action was to continue to review the Board's long-term succession plan, including the levels of independence on the Board. More details on succession planning can be found in the Nomination Committee report on page 79 and more details on independence on the Board can be found on pages 62 and 63.

In line with the Code, during 2018 the Board conducted an annual internal performance evaluation. This internal review gave us further opportunity to reflect on the effectiveness of the Board's activities, the quality of discussion, decision-making and individual performance and contribution.

CORPORATE GOVERNANCE REPORT CONTINUED

Focused one-to-one discussions were held with each Director and the Chairman. The Chairman's evaluation was carried out by the SID. The following topics were discussed:

- Composition, skills, independence, experience and diversity of the Board
- Culture
- Strategy
- Succession planning
- Effectiveness of decision-making and quality of discussion at meetings
- Resourcing of meetings, agenda planning, quality of information
- Committee effectiveness

Each of the Board Committees also carried out reviews of their performance.

We are satisfied that the Board and each of the Committees continue to operate effectively.

Development

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations. This year the Board received an externally facilitated training session on the new 2018 Corporate Governance Code and a regulatory and accounting update including IFRS 16 was provided to the Audit Committee by PwC. Non-Executive Directors attend seminars and briefings in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Committees on which they sit.

Executive Directors take part in our appraisal procedure. This sets tangible targets against which performance is measured. Non-Executive Directors are appraised as part of the overall Board Evaluation process referred to above.

Board and Committee Training and Deep Dive sessions

Financial	Regulatory	Risk
• IFRS 16 and accounting and regulatory update	• 2018 Corporate Governance Code	• ICAAP process • Fraud • IT resilience

Risk management

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

Our approach to risk is further detailed on pages 28 to 54. The Risk Oversight Committee reviews the effectiveness of the risk management process on the Board's behalf, and its approach to this can be found in the Risk Oversight Committee report on pages 74 to 77.

External appointments

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

During the year ended 31 December 2018, none of the Bank's Executive Directors held directorships in any other quoted company.

Conflicts of interest

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

The Company has a commercial relationship with InterArch, Inc. ('InterArch'), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II. The Audit Committee has considered this relationship and concluded that the arrangements with InterArch are on terms which are at least as beneficial to the Bank as those which could be obtained from an independent third party. Further details are set out in the Audit Committee Report on page 70 and in note 28 to the financial statements.

Independent professional advice

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

Directors' indemnities and insurance

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

Appointment and retirement of Directors

The Board may appoint Directors to the Board. Newly appointed Directors must stand for election by shareholders at the AGM following their appointment. In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the 2019 Annual General Meeting. Catherine Brown and Paul Thandi will stand for election by shareholders at the 2019 AGM, this being the first Annual General Meeting following their appointments. Lord Howard Flight retired from the Board on 1 April 2019 and Keith Carby will step down from the Board on 30 April 2019. They will therefore not seek re-election at the 2019 AGM. The Board continues to actively seek new independent Non-Executive Director candidates who, based on merit, will add value to the Board. Under the Articles of Association, shareholders may remove a Director before the end of their term by passing an ordinary resolution at a general meeting.

Relations with investors

The Board continues to place great importance on regular two-way engagement with investors. We welcome engagement and dialogue throughout the year as part of an ongoing process. We connect with our investors on an ongoing basis through a variety of channels including face-to-face meetings, presentations, webcasts and online content.

Investor meetings are undertaken by the founder and Chairman, Vernon W. Hill, II, the CEO, Craig Donaldson, and the CFO, David Arden, supported by the Director of Investor Relations. During 2018, the team participated in over 300 individual and group meetings in the US, UK and Europe and presented at various investor conferences. Institutional investors have the opportunity to meet with the Chairman, Deputy Chairman and/or other Non-Executive Directors to discuss any areas of concern.

During November 2018 we held engagement sessions with stakeholders, as we prepared for our upcoming annual reporting and we also held a governance breakfast with the Audit Committee Chairman and the SID in January 2019.

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

AUDIT COMMITTEE REPORT

Stuart Bernau, Chairman of the Audit Committee and Chit Ghee Yeoh, Director of Internal Audit

2018 ACTIVITIES

- Reviewed 38 Internal Audit reports and attestations and all of the Bank's financial reporting
- Reviewed related party contracts and third party reviews of key suppliers
- Completed a full external audit tender
- Conducted the annual Committee performance review

2019 FOCUS AREAS

- Oversight of Internal Audit reviews of Risk Weighted Assets (RWA) controls enhancements
- IT resilience and information security
- Financial reporting
- Review of Internal Audit reports

Attendance of the Audit Committee

As at 31 December 2018, the Audit Committee comprised the following independent Non-Executive Directors:

	Meetings attended 2018	
	Attended	Max possible
Stuart Bernau (Chairman)	9	9
Gene Lockhart[1]	8	9
Keith Carby[2]	9	9
Sir Michael Snyder	9	9

1. Gene Lockhart was unable to attend one meeting for personal reasons
2. Keith Carby will retire from the Board on 30 April 2019.

Letter from the Chairman

I am pleased to present the Audit Committee report for the year ended 31 December 2018.

The Audit Committee has focused on delivering robust scrutiny and evaluation of the Bank's control environment so that it works and develops alongside the growth model. We continue to be forward as well as backward looking to ensure the Committee fulfils its assurance role and understands, assesses and monitors risks facing the business.

It has been a busy year for the Audit Committee. During the summer, the Committee led the tender process for the Bank's external audit. The ultimate goal of the process was to identify and appoint the audit firm that would provide the highest quality, most effective and efficient audit to the Bank. Following a thorough and robust tender process, I am pleased to report that PwC LLP has been reappointed as external auditor subject to reappointment by shareholders at the 2019 AGM. More detail on the tender process can be found later in this report.

In January 2019, we announced that we had adjusted the risk-weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWA by £900 million. Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. We are learning the lessons from this and will continue to improve our systems and controls around capital and RWAs. The Committee will oversee the Internal Audit reviews of RWA controls enhancements in 2019. This is the programme to enhance Metro Bank's systems and controls for risk-weighting and capital.

The Committee has monitored the delivery of the 2018 Internal Audit Plan. We have reviewed the outcomes of the work performed and the reports issued, ensuring recommendations for improvement are actioned where appropriate. In developing the Internal Audit Plan for 2019, we have ensured inclusion of those areas which bear the greatest risk to the Bank, those which are most impacted by continued growth and areas of regulatory focus. We monitor the resource available to the Internal Audit team to ensure it has sufficient resource to fulfil its responsibilities.

The 2019 Internal Audit Plan was approved by the Board in January 2019 following discussion at the Committee and it also approved the level of risk assurance contained within the plan. I am therefore comfortable that the key risks to Metro Bank's unique business model have been identified and are being monitored.

The Committee continues to arrange for periodic independent evaluation of the contracts for services with InterArch, Inc. ('InterArch'). This includes oversight of the reviews carried out by authoritative independent third parties, the details of which can be found on page 70. The standard of service and the product InterArch provides is of a very high quality; however, management has decided to expand the suppliers we use for architectural design services.

As part of my role as Chairman of the Audit Committee, I hold regular meetings with colleagues from the Bank including, the Director of Internal Audit, Chief Risk Officer, Chief Financial Officer and senior members of his team, and the Deputy Company Secretary who acts as Secretary to the Committee. I also sit on the Risk Oversight Committee and work closely with Gene Lockhart, its Chairman.

I am available to meet with the Company's shareholders on request. This year, the Senior Independent Director and I met with investors at the Bank's offices in Holborn during the summer and we also hosted an investor breakfast in January 2019.

The Audit Committee met nine times in 2018. Following each meeting, I provided a verbal update to the Board on key issues and, where necessary, outlined the actions being taken by management to address any issues raised. The minutes are also included in the next Board pack. Before each Audit Committee meeting I also meet with the external audit partner, and the Committee members have a session with the external auditor at the end of each meeting without the presence of management.

The Committee keeps itself up to date on industry and regulatory matters. In 2018 we had technical briefing sessions delivered by PwC, as well as a corporate governance update provided by the Deputy Company Secretary. I also attend regular seminars run by professional services firms on current key issues, which this year have included cyber security, social media and digital tools and building trust in financial services.

It has been a pleasure to chair the Audit Committee since the Bank obtained its banking licence in April 2010. This is my last report as Chair. Subject to regulatory approval, Sir Michael Snyder will take over as Independent Audit Chairman from 1 April 2019. Sir Michael has extensive audit experience, having been a partner of an audit firm for over 40 years. He has been a member of the Committee since 2016 and is well aware of the challenges facing the Bank as it continues on its growth journey. I am pleased to pass on responsibility to Sir Michael and wish him well in his role as Chairman.

Stuart Bernau
Audit Committee Chairman
10 April 2019

The Audit Committee in brief

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

External audit

- Recommend the appointment, reappointment or removal of the external auditors
- Review independence and objectivity, as well as the quality of the audit work performed
- Approve audit remuneration
- Review the supply of non-audit services in line with the Bank's policy and professional independence requirements
- Meet regularly without management present
- Ensure the audit contract is tendered at least every 10 years

Internal Audit

- Approve appointment or termination of the Director of Internal Audit
- Contribute to the annual and half year review of the Director of Internal Audit
- Monitor and review the effectiveness of the function
- Review and approve the Internal Audit Charter
- Review and assess the Internal Audit Plan and ensure that resources are adequate
- Meet regularly with the Director of Internal Audit and ensure access to Board
- Review management's responsiveness to findings

Financial and narrative reporting

- Monitor the integrity of the financial statements
- Review and report to the Board on significant financial issues and material judgements
- Review and challenge accounting policies, methods used to account for significant and unusual transactions, clarity and completeness of disclosure
- Advise whether the Annual Report is fair, balanced and understandable

Whistleblowing and fraud

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

Internal controls and risk management

- Monitor and review the adequacy and effectiveness of the Company's internal financial controls and risk management systems
- Review and approve the statements in the Annual Report concerning internal controls and risk management

AUDIT COMMITTEE REPORT CONTINUED

Composition of the Audit Committee

As of 31 December 2018, the four members of the Audit Committee were all independent Non-Executive Directors with a range of relevant business experience. For further details of their skills and experience, please refer to their biographies on pages 56 and 57. At least one of the members of the Committee has recent and relevant financial experience and the Committee as a whole has competence in the banking sector. Regular attendees at the Audit Committee include the CEO, CFO, CRO, Director of Internal Audit, Group Finance Director, Financial Controller, Deputy Company Secretary and representatives from the external auditor, PwC.

In accordance with the provisions of the UK Corporate Governance Code ('the Code'), two independent NEDs, Stuart Bernau (Chair of the Audit Committee) and Keith Carby (member of the Audit Committee), stood down from the Committee on 31 March 2019. They had both served on the Board for nine years and in accordance with the Code, they were no longer deemed independent. Whilst there was a brief transition period between 5 March 2019 (being the nine year anniversary of their original appointment to the Board) and the 1 April 2019, when they were no longer independent, there were no meetings of the Committee. From 1 April 2019 the Committee's membership is in compliance with the Code. More information on this can be found in the Nomination Committee report on page 79.

Key areas discussed at Audit Committee meetings in 2018

Area	Key topics
Policy	• Whistleblowing Policy • Anti-bribery and corruption • Conflicts of interest and related parties • Non-Audit Services Policy • Review of Terms of Reference and recommendation to Board for approval • Committee performance evaluation
Financial reporting	• Review of Q1 results • 2018 half year results, including an update of critical accounting judgements and estimates • Review of Q3 results • 2017 full year results, Annual Report and Accounts, including assessment of the key judgements and estimates, going concern and viability report • Review of 2017 external Auditor's reports and findings • Tax strategy • IFRS 9 key accounting judgements • Deferred tax asset review
Internal Audit	• Review of internal audits carried out in 2018 • Review and approval of the Internal Audit Charter • Review of the 2018 Internal Audit Reports • Review of the 2019 Internal Audit Plan
External audit	• 2017 external Auditor's Report and full year findings • 2018 External Audit Plan, engagement terms and fees • Terms of engagement for the half year review • External auditors' half year review findings • 2017 full year external Auditors' Report and findings • Overseeing the external audit tender process and making a recommendation to the Board on the re-appointment of the external auditor
Related party review	• Independent review of the InterArch Architectural design services and branding, marketing and advertising contracts
Information Technology	• IT resilience review • Management IT Resilience Reports
Regulatory	• Regulatory and accounting update including IFRS 16 • IFRS 9 implementation progress updates • Modern Slavery Statement • UK Corporate Governance Code Update

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

Related parties

Architectural design services and branding, and marketing and advertising services are provided to the Bank by InterArch – a firm owned by Shirley Hill, wife of Vernon W. Hill, II, Chairman.

In order to ensure that the contracts for services with InterArch are materially consistent with those that could be obtained from an independent third party, the contractual arrangements are subject to an independent annual review arranged by the Audit Committee. As part of this review detailed benchmarking is conducted by authoritative independent third parties. For the architectural design contract, which covers the build and design of our stores, a Big Four professional services firm carries out the benchmarking review. The marketing services contract, which covers marketing, branding and advertising services, is reviewed by the largest independent global marketing audit firm. To provide assurance that the contracts remain on arm's length terms, the InterArch fee rates and structures are compared against market comparators and commentary is provided on how the services provided to the Bank by InterArch align with these. The Committee discussed the benchmarking reviews conducted by independent third parties and evaluated the Bank's response to the feedback reported. Following consideration, the Committee remains satisfied that the contracts for services with InterArch are at arm's length and are at least as beneficial as those which could be obtained in the market from an alternative supplier. The quality and effectiveness of the service provided by InterArch continue to provide value for the Bank. In order to expand the suppliers used, management intends to run a competitive tender in 2019 to identify an additional alternative supplier of architecture services.

In line with the Code, the Committee also considers the disclosures that the Bank makes in the financial statements regarding the relationship with InterArch to ensure they are appropriate and in line with relevant reporting standards. Following feedback from stakeholders, the Committee has included further information on the benchmarking review this year, as above.

The annual review of the InterArch contracts completed in 2018. Following this, new annual contracts were negotiated and became effective from 28 February 2019. The Committee has evaluated the steps taken by management to ensure that the contracts continue to be at arm's length as part of the renegotiation process.

Fair, balanced and understandable

In line with the Code, the Committee considered whether the 2018 Annual Report is 'fair, balanced and understandable and should provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy'. The Committee is satisfied that the 2018 Annual Report meets this requirement and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. The process supporting this goal included:

- The compilation of the 2018 Annual Report and Accounts which was managed by the Chief Financial Officer together with a cross-functional team of senior managers
- Input by a cross-functional team from Finance, Risk, People, Legal, Investor Relations and business lines
- A formal review by the Audit Committee of the draft 2018 Annual Report and Accounts, along with a review of any issues raised in the external Auditor's Report, in advance of final sign-off
- A final review, performed by the Board of Directors

Internal Audit

The Group's Internal Audit function plays a key role in providing independent assessment and challenging governance, risk and control. The Audit Committee approved the Internal Audit Plan and considered the results of its work. We also:

- Approved the Internal Audit Charter, which sets out the role and expectations of Internal Audit
- Monitored the objectivity and competence of the Internal Audit function, and the adequacy of Internal Audit resources and skills
- Carried out an internally facilitated review of the effectiveness of the Internal Audit function
- Monitored the delivery of the Internal Audit Plan
- Approved the Internal Audit Plan for 2019

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

System of internal control and risk management

Details of the Bank's risk management framework are provided on pages 28 to 54. In considering the effectiveness of internal controls, the Audit Committee received and discussed reports from Internal Audit and the external auditor. In addition, executive management was invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Audit Committee.

Recommendations for improvements to internal controls by the external auditor are monitored by Internal Audit, with progress reported to the Audit Committee.

External audit

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

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

- carried out an external audit tender;
- carried out a review of the 2017 external audit process;
- reviewed the results of the Annual Report on PwC's audit quality issued by the Financial Reporting Council ('RCS');
- reviewed the proposed Audit Plan in advance of the annual audit;
- Reviewed and approved the audit engagement terms and proposed audit fee;
- considered the continued independence and objectivity of PwC; and
- reviewed and discussed the reports provided by PwC.

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

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

AUDIT COMMITTEE REPORT CONTINUED

External audit tender

PwC LLP, the Bank's external auditor, has been in situ since 2009. The Bank is required under law to put its audit out to tender at least every 10 years and to change its auditor at least every 20 years. As disclosed last year, the Audit Committee commenced a tendering process in 2018 which is set out below. The Audit Committee recommended to the Board that PwC be reappointed as the Bank's auditor. A resolution to reappoint PwC will be put to shareholders at the AGM in 2019.

The tender process and the Committee's involvement in that process is outlined below:

Tender participants: PwC, KPMG, Ernst & Young, Grant Thornton and BDO were all invited to participate in the tender process. Consideration was also given to other firms. It was agreed that there were adequate choices available such that Deloitte would not be invited to tender in light of the non-audit services it provides to the Bank.

Tender documentation: Request For Proposal documentation and a data pack was issued to all participants which provided detailed information to support the submission of quality and accurate bids.

Carousel day: Each participant that had confirmed its interest in tendering had the opportunity to spend time with stakeholders from across the business to obtain a more detailed understanding of the Bank and the existing management processes and challenges to better inform their tender submission. These meetings included time with senior colleagues from Finance and Tax, Internal Audit, Risk, Company Secretarial, Operations and IT.

Tender document scoring: We asked each participant to provide us with responses to questions on the following key areas:

- An overview of the tendering firm and proposed team
- Audit quality and process, including transitional arrangements (if relevant)
- Understanding of Metro Bank and its unique culture
- How the firm would become independent and maintain independence
- Pricing and commercial structure of the engagement

Each firm was scored in each area, with scoring most heavily weighted towards questions on the audit process and approach, and the team calibre and fit. Scores were provided by the Chairman of the Audit Committee, Finance Director and Financial Controller.

First-round presentation: Each participant was invited to provide a first-round presentation. Each presentation was attended by the Chairman of the Audit Committee, the Finance Director, the Financial Controller, the Deputy Company Secretary and the Director of Procurement. Presentations were not formally scored, but verbal feedback was debated internally. Feedback was aligned to tender proposal document scores. The two best scored participants were shortlisted and invited to formally present to the Audit Committee.

Outcome: The final presentations were closely run and both participants gave detailed and authoritative presentations, displaying expertise in their fields. The Audit Committee recommended PwC as the preferred participant among the final candidates given the team presented the most competently on relevant areas of focus. These included industry knowledge, audit quality, use of technology and the provision of industry insight.

Non-audit services

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

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

- Tax and valuation services, consultancy and advisory services
- Services that involve playing any part in the management or decision-making of the Bank
- The design and implementation of internal control or risk management procedures related to the preparation or control of financial information, or the design and implementation of financial information technology systems
- Services linked to the financing, capital structure and investment strategy of the Bank
- Legal services
- Bookkeeping and preparing accounting records and financial statements
- Payroll services and certain human resources services
- Services related to the Bank's Internal Audit function

No significant engagements for non-audit services were carried out by the external auditor during the year. Where they did occur, they were in respect of audit or assurance-related matters consistent with the principles of independent assurance provision. Details of the fees paid to the external auditor during the year can be found in note 7 to the financial statements on page 119.

Significant financial reporting areas considered by the Audit Committee in 2018

In respect of financial reporting, the Audit Committee considered the key judgements and estimates in relation to the 2018 Annual Report and Accounts.

Key judgements and estimates in financial reporting	Audit Committee review and conclusions
Impairment of loans and advances The Bank adopted IFRS 9 in the period, having estimated and disclosed the potential impact. Determining the appropriateness of loan loss provision is inherently judgemental and requires management to make a number of assumptions. Individual impairment losses on secured loans and advances are calculated based on an individual valuation of the underlying asset. Expected impairment losses on stage 1 and 2 loans and advances are calculated using a statistical model. The key areas of judgement and estimation consist of: • the measurement of the expected credit loss allowance; • what we consider to be a significant increase in credit risk; and • the multiple forward-looking economic scenarios used in the modelling.	The Committee also specifically considered the key accounting judgements and disclosures for the transition to IFRS 9 and is satisfied that they are reasonable. The Committee received and challenged reports from management explaining the approach taken to provisioning and the resulting changes in the provision levels during the period. The Committee considered key assumptions used in the Bank's expected credit loss model, being the point at which a loan is considered to have experienced a significant increase in risk, probability of default, the probability of this default resulting in possession and/or write-off, the loss given default (the subsequent loss incurred) and the economic scenarios. The Committee is satisfied that the approach taken and judgements applied were reasonable.

RISK OVERSIGHT COMMITTEE REPORT

Gene Lockhart, Chairman of the Risk Oversight Committee and Aileen Gillan, Chief Risk Officer

2018 ACTIVITIES

- Reviewed and approved or recommended 10 policies to the Board for approval
- Provided oversight of the preparation of the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP')
- Held 'Deep Dive' review sessions on operational and IT resilience
- Received regular updates on the Advanced Internal Ratings Based ('AIRB') approach to calculating credit risk application process
- The Chairman and members of the Committee met with the Regulator as part of the Bank's periodic summary meeting

2019 FOCUS AREAS

- Organisational resilience and continuity
- Ongoing work towards AIRB Accreditation
- Capital
- Liquidity

Attendance of the Risk Oversight Committee

As at 31 December 2018, the Risk Oversight Committee ('ROC') comprised the following independent Non-Executive Directors:

	Meetings attended 2018	
Members	Attended	Max possible
Gene Lockhart (Chairman)	5	5
Stuart Bernau	5	5
Alastair (Ben) Gunn[1]	4	5
Sir Michael Snyder	5	5
Anna (Monique) Melis[2]	4	4

1. Ben Gunn was unable to attend one meeting for personal reasons
2. Monique Melis joined the Committee in March 2018

Letter from the Chairman

I set out below the report of the Risk Oversight Committee for 2018.

The ROC provides oversight of risk and advises the Board, as appropriate, on the risk posed to the Bank from its continuing business activities and future risk strategy. The areas of risk include:

- Credit risk
- Treasury and liquidity management
- Operational risk
- Compliance and conduct risk (including regulatory risk)
- Financial crime risk

Overview

Whilst 2018 was a busy and rewarding year for the Bank, it was not without its challenges, however, our unique business model goes from strength to strength, and we have continued to win market share. This growth is driven by winning customers, who bring their low-cost, long duration deposits and then lending that out to high-quality, lower-risk opportunities. We expect that the UK residential mortgage lending market will continue to be challenging in 2019. Our lending will continue to be underpinned by our conservative approach.

Credit Risk

From a credit risk standpoint, the Bank remained very strong during 2018. Adherence to our conservative lending policies has resulted in consumer, mortgage and commercial loans that have prudent risk qualities and remain within our risk appetite.

As part of our oversight role, the Committee's job is to constructively challenge and support the Management team as we build the Bank for the long term. In January 2019, we announced that we had adjusted the risk-weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million.

Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. We are learning the lessons from this and will continue to improve our systems and controls around capital and risk-weighted assets. Management presented to the Committee regarding the identification of the issue and its plans to enhance Metro Bank's systems and controls in this area. The Audit Committee will provide oversight of the Internal Audit reviews of the RWA controls enhancements.

We submitted our application for an AIRB approach to credit risk to the regulator at the start of 2018. Work towards AIRB accreditation will include ongoing engagement with the PRA on what is an iterative and detailed project. The potential capital efficiencies AIRB will bring are significant and this therefore remains one of our top priorities. However, the Bank does not now expect to receive AIRB accreditation prior to 2021.

As part of its oversight role, the Committee has spent time reviewing and challenging the Bank's ICAAP and associated documents, including stress testing and assumptions, prior to the submission to the PRA.

The pace of regulatory change shows no sign of abating. As it grows, the Bank must continue to evolve and mature to ensure that it keeps pace in the environment of change and challenge in which it operates. On the horizon, the implementation of ring-fenced banking legislation and the minimum requirement on own funds and eligible liabilities ('MREL') and the new leasing standard IFRS 16 present a challenge but also a potential opportunity for smaller banks with significantly less complex businesses than their peers. During the year, the Committee has spent time working with the Executive Leadership Team to review their plans to implement these regulations.

Operational Risk

Keeping our customers safe is incredibly important to us. To this end, during 2018 the Committee spent significant time reviewing and providing oversight of the Bank's IT and operational resilience and infrastructure through a number of 'deep dive' reviews. Our reviews have focused on Metro Bank's ability to proactively avoid, respond, recover and learn from operational and IT-related disruptions. A number of key components make up the Bank's resilience capabilities including fraud and cyber security, business continuity and crisis management, IT service management and change management. Metro Bank continues to invest heavily in technology and capability to further improve its operational resilience. This will be an ongoing focus during 2019.

Compliance and conduct risk (including regulatory risk)

As is usual, we have also spent significant time during the year reviewing a number of the Bank's policies, documents and transactions, and discharged other advisory and oversight responsibilities. ROC members and other colleagues also met the PRA on a number of occasions during the year, including the Bank's periodic summary meeting. I provide a verbal update to the Board after every Committee meeting and the ROC minutes are included in the next Board pack.

Financial Crime Risk

During the year, we received regular updates on financial crime risk and we continue to keep a watching brief on this ever evolving area of risk.

I am pleased to report that following her appointment to the Board in June 2017, Monique Melis became a member of the Committee in March 2018. Monique's extensive financial services and regulatory experience is an excellent addition to the Committee's membership and we welcome her contribution.

The following sections explain the role and activities of the ROC, and how it has discharged these responsibilities, as well as setting out several key areas of activity during 2018.

Gene Lockhart
Risk Oversight Committee Chairman
10 April 2019

RISK OVERSIGHT COMMITTEE REPORT CONTINUED

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

Accountable to the Board, the ROC provides leadership, oversight and direction regarding the Bank's risk governance and management. We are charged with helping the Board to create an appropriate culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. We are responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, ICAAP document, ILAAP document and risk policies. We also provide oversight of the credit risk model programme. The ROC oversees risk management procedures and reviews risk reports on key business areas. In addition, we advise the Audit Committee on reviews of effectiveness of the Bank's risk controls, and the Nomination and Remuneration Committees on the weighting to be applied to risk for the remuneration calculations for the Executive Leadership Team.

The ROC receives regular management information ('MI') and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. We receive regular updates on regulatory developments, and consider how these will affect plans, processes, systems and controls.

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

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

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

- CRO ROC Report
  This includes an executive summary from the CRO setting out items of note and assessing the Bank's performance against its risk appetite and risk metrics. It also includes specific reports on the following areas:
  - Credit risk
    Execution of our strategy requires prudent and controlled management of credit risk. To support this, one of the roles of the ROC is to oversee credit underwriting and ensure that the Bank has effective processes and controls to monitor and manage credit risk, including where the risk position associated with a particular customer or loan has deteriorated. This ensures that lending remains within risk appetite and monitors policy exceptions.
  - Operational risk
    We receive reports concerning risk and control self-assessments, information security, business continuity management and incidents. While a number of incidents were raised during 2018, our view is that the management of these incidents and the actions taken in response were proportionate and appropriate to the size and scale of the incidents. We also note that post-incident reviews were held for material incidents to capture learnings and ways to prevent or mitigate any potential recurrences. We continued to focus on cyber and fraud risk during 2018, in response to the increased prevalence of attempted attacks against financial services firms and others. We also increased our focus on operational resilience, having regard to increased regulatory focus on firms' ability to respond to major events causing operational disruption.
  - Compliance and conduct risk (including regulatory risk)
    In a constantly changing regulatory environment, the ROC is updated regularly on developments and regulatory changes that could impact the Bank. We receive updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and voice of the customer. We are also updated on how the Bank manages expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line.
  - Financial crime risk
    Given the level of risk posed by financial crime to all banks, our report includes management information on matters including: performance against the Bank's financial crime key risk indicators; compliance with customer identification and verification requirements for all new accounts; oversight and risk assessment of high-risk customers. Our report also covers payments and customer screening, as well as updates on items of note from the Financial Crime Steering Group.
- Treasury and liquidity management
  While the primary venue for in-depth discussions on Treasury is the ALCO, the Treasurer's commentary is tabled at each ROC meeting – and the Treasurer is invited to attend meetings to discuss this. The ROC also reviews Treasury policies and notes the minutes of the ALCO. Our report includes high-level MI on liquidity and interest rate risk, while we also receive specific reports on Treasury risk. In addition, the Treasurer's report includes updates on relevant regulatory matters.

- Litigation update
  We note the report from the Bank's Legal team regarding any material litigation cases.
- Deep dives and in-depth reviews
  We receive in-depth reviews on areas of emerging risk and regulatory interest throughout the year. Topics covered during 2018 included cyber security, commercial lending, IT resilience and infrastructure, and operational resilience.

Composition of the Risk Oversight Committee

Monique Melis joined the Committee in March 2018; while all other members held office throughout 2018. Non-Executive Directors who are not ROC members may attend meetings. New Directors attend meetings as part of their induction programme. The CFO, CRO and CEO have standing invitations to attend as guests, unless the Chairman of the Committee asks them to excuse themselves from a particular meeting or discussion.

Other Directors and colleagues attend as guests by invitation of the Chairman to present and report on relevant topics, with the Deputy Company Secretary acting as Secretary to the Committee.

The appointments of two new Non-Executive Directors during the year gave us the opportunity to refresh the membership of the Committee, with effect from 1 April 2019. More information on this can be found in the Nomination Committee report on page 79.

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

Key areas considered by the Risk Oversight Committee in 2018

During 2018, we received items of business including the following:

Area	Discussion
Policy	Policies approved by the ROC: • Arrears Management Policy • Impairment Policy • Data Policy • Model Governance Policy • Recruitment and Selection Policy • Impairment Policy • Supplier Management Policy • Meta Policy • Treasury Dealing Policy • Information Security Policy • Model Policy Policies reviewed and recommended to the Board: • Anti-Money Laundering and Counter Terrorism Financing Policy
Regulatory	• MREL • GDPR process and post-implementation review • FCA culture essay response
AIRB application	• AIRB approach to calculating credit risk application updates
Treasury	• Review and approval of Market Risk Policy
IT resilience	• IT systems resilience review • Operational risk review • Cyber security update
Capital and liquidity	• ILAAP document incorporating Treasury Policy and Contingency Funding Plan • ICAAP document including interest rate risk in the banking book
Deep dives	• ICAAP • Fraud • IT resilience • Consumer lending portfolio • Commercial lending

NOMINATION COMMITTEE REPORT

Lord Flight, former Chairman of the Nomination Committee and Danielle Harmer, Chief People Officer

2018 ACTIVITIES

- The Nomination Committee oversaw and recommended the appointment of a new CFO, David Arden, and two new Non-Executive Directors, Catherine Brown and Paul Thandi (who joined the Board on 1 January 2019)
- We have appointed Stuart Bernau as the Non-Executive Director accountable for workforce engagement from 1 January 2019
- The Committee also agreed new Committee membership and Chairman appointments to maintain Committee independence and the appointment of a new Senior Independent Director ('SID'). These were effective from 1 April 2019[1]

2019 FOCUS AREAS

- The Committee will focus on Board succession and independence; specifically, sourcing high-quality Non-Executive Director candidates with retail and commercial banking experience who have the capability to support and challenge the organisation
- We will also seek to further improve the diversity of our Board in line with our Board Diversity Policy

1. The above changes in Committee Chair and Senior Independent Director roles are subject to regulatory approval.
2. Keith Carby retires from the Board on 30 April 2019.

Attendance at the Nomination Committee

As at 31 December 2018, the Nomination Committee comprised the following independent Non-Executive Directors and the Chairman, Vernon W. Hill, II:

	Meetings attended 2018	
	Attended	Max possible
Lord Flight (Chairman)	5	5
Vernon W. Hill, II	5	5
Keith Carby[2]	5	5
Roger Farah	5	5

Letter from the Chairman

I am pleased to share my report of the Nomination Committee for 2018.

We have put a great deal of energy into meeting with potential Board candidates during the year and have a refreshed Nomination Committee in place from 1 April 2019, chaired by Roger Farah[1].

As announced in last year's Annual Report we welcomed our new Chief Financial Officer, David Arden, on March 2018 following Mike Brierley's retirement.

Following a rigorous process for her appointment and working with our search partner Audeliss, Catherine Brown joined the Board as a Non-Executive Director on 1 October 2018. Catherine has extensive experience in organisational transformation in financial services, leadership and operations.

Additionally Paul Thandi, CEO of the NEC, joined the Board as a Non-Executive Director from 1 January 2019 following a brief period on our Advisory Board. Paul brings a relentless focus on customers from his experience as a leader in media and service businesses.

It is great to be able to welcome new talent to the Board and the team.

Board composition, independence and time commitments
We reviewed the skills, experience, independence and knowledge of the Board during 2018 to understand which areas to focus on when recruiting future Board members and the future composition of our Board and Committees.

We recognise the UK Corporate Governance Code's recommendations in relation to tenure and independence. The Committee is satisfied that, as at 31 December 2018, all of the Non-Executive Directors were independent. As a relatively young organisation, a number of our NEDs reached nine years' tenure in March 2019 and we no longer treat those Non-Executive Directors as independent.

We have made good progress on Board succession and expect to make at least another appointment within 12 months. The appointment of two new Non-Executive Directors gave us the opportunity to refresh the membership and chairs of our Committees and our Committees are in compliance with the UK Corporate Governance Code's provisions from 1 April. While there was a brief transitional period between 5 March and 1 April there were no meetings for the Audit, Nomination and Remuneration Committees during March 2019.

The Board carried out an evaluation during 2018. More details are on page 65.

Our Board and Committee composition from 1 April 2019[1]:

Roles	Names	Comments
Board roles		
Chairman	Vernon W. Hill, II	While our balance of independent Directors is currently slightly below the 50% minimum this will be short-lived as Keith Carby retires on 30 April 2019, after nine years on the board.
Deputy Chairman	Ben Gunn (non-independent)	
		From 1 May the Board (excluding the Chairman) will be made up of 10 Directors of which five (50%) are independent Non-Executive Directors (NEDs), three are non-independent NEDs and the remaining two are Executive Directors.
Senior Independent Director	Sir Michael Snyder	
Designated NED for Workforce Engagement	Stuart Bernau (non-independent)	The Board continues its proactive search for additional independent NEDs and we expect to make at least one appointment this year.
Independent NEDs	Catherine Brown Roger Farah Monique Melis Paul Thandi	All our UK Corporate Governance Code Committees are majority or totally independent.
NEDs (non-independent)	Keith Carby[2] Gene Lockhart	
Executive Directors		
CEO	Craig Donaldson	
CFO	David Arden	
Audit Committee		
Chairman	Sir Michael Snyder	The Audit Committee will be comprised entirely of independent NEDs.
Members	Roger Farah Monique Melis	
Nomination Committee		
Chairman	Roger Farah	The Nomination Committee will have a majority of independent NEDs as members until Keith Carby retires on 30 April 2019. From 1 May 2019 it will be comprised entirely of independent NEDs.
Members	Catherine Brown Keith Carby[2] Vernon W. Hill, II Paul Thandi	
Remuneration Committee		
Chairman	Roger Farah	The Remuneration Committee will be comprised entirely of independent NEDs.
Members	Catherine Brown Paul Thandi	
Risk Oversight Committee		
Chairman	Gene Lockhart	The Risk Oversight Committee membership will be 50% independent and 50% non-independent. Gene Lockhart will transition out of the role of Chairman of the Committee during 2020. This enables us to retain his banking experience, as Committee Chairman, while we continue to refresh the Board.
Members	Stuart Bernau Catherine Brown Monique Melis	

1. The above changes in Committee Chair and Senior Independent Director roles are subject to regulatory approval.
2. Keith Carby retires from the Board on 30 April 2019.

Diversity

We understand the merits of a diverse organisation and Board. We have retained Audeliss, a search firm, to support us in sourcing candidates for Non-Executive Director roles. Diversity is central to Audeliss's approach and it is a signatory to the Women on Boards Voluntary Code of Conduct for Executive Search Firms. Audeliss has no connection to Metro Bank.

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

Roger Farah took over as Chairman of the Nomination Committee on 1 April 2019[1] and I wish him well in his new role. Having served as a Non-Executive Director for nine years I stepped down from the Board on 1 April 2019.

Lord Flight
Nomination Committee Chairman for the financial year ended 31 December 2018
10 April 2019

The Nomination Committee in brief

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

- regularly reviewing the structure, size and composition (including skills, knowledge, experience, independence and diversity) of the Board as a whole and making recommendations to the Board as required;
- considering succession planning for members of the Board and Executive Directors, including the length of service of members and the need to regularly refresh Board membership, taking into account the Company's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Company and the skills and expertise needed on the Board in the future;
- taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board;
- evaluating the balance of skills, knowledge and experience, diversity and length of service on the Board, and the range of critical skills of value to the Board relevant to the challenges and opportunities facing the Company;
- considering Board candidates on merit and against objective criteria and with due regard for the benefits of diversity, taking care that appointees have time available to devote to the position; and
- reviewing the results of the Board performance evaluation process relating to Board composition.

The Nomination Committee Terms of Reference can be found on our website: metrobankonline.co.uk

1. The change in Nomination Committee Chair role is subject to regulatory approval.

Composition of the Nomination Committee

In addition to the members set out on page 78, Craig Donaldson, Chief Executive Officer, attends meetings by invitation. The Chief People Officer, Danielle Harmer, acts as Secretary to the Committee and provides support to the Committee Chairman and Committee as needed.

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

Key areas discussed at Nomination Committee meetings in 2018

Area	Topics
Board appointments	• The appointment of David Arden as the new Chief Financial Officer • The appointment of Catherine Brown as a new Non-Executive Director • The appointment of Paul Thandi as a new Non-Executive Director
Board Succession	• The Board succession plan – progressively refreshing our Board • Putting the Board succession plan into action and Board independence • Review of proposed Non-Executive Director candidates • Committee Chairs and membership and independence • Agreement of Committee memberships for Monique Melis • Designated Non-Executive Director for Workforce Engagement
Other areas for review	• 2018 Hampton-Alexander data/report • Approval of Nomination Committee report • Annual review of the Nomination Committee Terms of Reference • Proxy Adviser feedback on 2017 Annual Report and new Corporate Governance Code requirements • Nomination Committee annual effectiveness review

REMUNERATION COMMITTEE REPORT

Lord Flight, former Chairman of the Remuneration Committee and Danielle Harmer, Chief People Officer

2018 ACTIVITIES

- The Committee oversees the key aspects of reward for all colleagues. Our activities are not focused solely on Director remuneration; for example, they included a review of the performance of the Group personal pension scheme and the Company's gender pay gap
- We also review the principles of the annual Reward Review, including salaries and variable pay, for all colleagues

2019 FOCUS AREAS

- The Committee is mindful of the changes within the UK Corporate Governance Code and their potential impact on remuneration
- We are again improving our disclosure and transparency this year including reporting early on the new CEO pay ratio
- Our approach this year also includes more clarity on performance assessment and the link to reward
- We are pleased with the improvement in the gender pay gap and this remains an area of focus (page 82)

Attendance at Remuneration Committee

As at 31 December 2018, the members of the Committee were all independent Non-Executive Directors:

	Meetings attended 2018	
	Attended	Max possible
Lord Flight (Chairman)	5	5
Keith Carby[1]	5	5
Roger Farah	5	5

1. Keith Carby retires from the Board on 30 April 2019

Letter from the Chairman

On behalf of the Board, and as former Chairman of the Remuneration Committee, I am pleased to present the Remuneration Committee Report and the Directors' Remuneration Report ('the Report') for the year ending 31 December 2018. I would like to thank our investors for their support during my time as Chairman. I stepped down from the Board and Roger Farah took over as Chairman of the Remuneration Committee from 1 April 2019[1]. I wish him well in his role.

Our Directors' Remuneration Policy was approved at the Annual General Meeting ('AGM') on 25 April 2017, and is due for review in 2020. We have included a summary of the current policy within our Remuneration Report for ease of reference and the full policy can be found on our website.

We have again enhanced the level of disclosure in the Report this year in response to feedback from investors and are providing greater transparency with regard to variable remuneration outcomes for 2018.

In January 2019, we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our risk weighted assets ('RWA') by £900 million. In light of this Craig Donaldson has asked that the Committee does not consider him for variable reward for 2018. In addition, the Committee has decided to freeze vestings of share options and awards for Executive Directors and the Executive team, including share options for 2018, pending further internal analysis and any external investigations into the RWA adjustment.

Our approach to remuneration across Metro Bank

We believe oversight of the remuneration and benefits across the Bank for all colleagues, not just Directors, is an important part of our role. Our approach to remuneration for Executive Directors is consistent with that taken for all colleagues. It comprises a salary, reasonable benefits and pension provisions and variable reward which is delivered primarily through share options. We do not operate additional Long-Term Incentive Plans or 'LTIPs'.

1. The above change in Committee Chair is subject to regulatory approval.

REMUNERATION COMMITTEE REPORT CONTINUED

Variable reward for all eligible colleagues, including Directors, is based on personal behaviours and delivery and also how the Bank has performed during the year. All share options are awarded at the market share price with no discount and are subject to deferral over up to five years. This aligns all colleagues with both investors and other stakeholders in line with our customer-focused growth model and long-term vision. Our customer-focused model is also the reason why we weight a greater proportion of our variable reward outcomes on customer service metrics.

All variable reward is subject to malus and clawback.

Gender pay

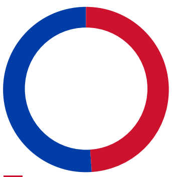
We are pleased that we have a narrower pay gap this year. The 2018 median gender pay gap is 9.8% (13.5% in 2017) and the mean gender pay gap is 21% (22.4% in 2017). There are proportionately more women carrying out jobs in the top pay quartile than in the previous year and the gaps in the top and bottom quartiles have narrowed.

Year	Median pay gap	Mean pay gap	Median bonus gap	Mean bonus gap	Median bonus gap excluding share options sales/gains	Mean bonus gap excluding share options sales/gains
2018	9.8%	21.0%	29.0%	35.7%	27.9%	30.0%
2017	13.5%	22.4%	24.0%	38.7%	23.5%	27.1%

We take fairness and transparency very seriously so we examined salaries for all roles with more than 10 colleagues in them. This confirmed that we pay colleagues doing the same roles equitably, regardless of gender. Nonetheless, we continue to focus on reducing the gap by supporting all colleagues to develop in their careers and progress towards more stretching jobs that typically command a higher salary. All of our talent development programmes are inclusive and we support leaders by providing them with diverse candidate lists for vacancies.

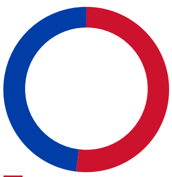
Pay quartiles

LOWER



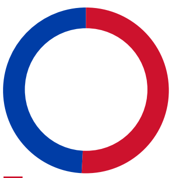
Male		49%
Female		51%
	Median pay gap	0.0%
	Mean pay gap	-0.2%

LOWER MIDDLE



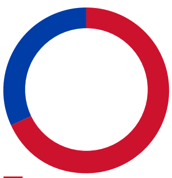
Male		52%
Female		48%
	Median pay gap	3.5%
	Mean pay gap	1.2%

UPPER MIDDLE



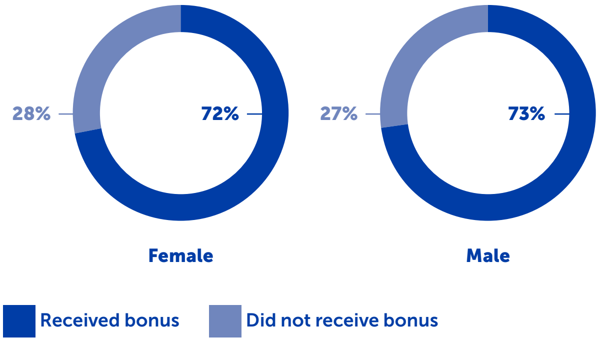
Male		51%
Female		49%
	Median pay gap	0.6%
	Mean pay gap	1.8%

UPPER



Male		68%
Female		32%
	Median pay gap	10.1%
	Mean pay gap	11.1%

In 2018 variable reward was balanced with 72% of females receiving a bonus, versus 73% of males.



The median bonus gap was 29% and the mean bonus gap was 35.7%. However, if gains made on the sale of share options or shares are excluded, the median bonus gap reduces to 27.9% and the mean bonus gap reduces to 30%. The bonus gap is driven by the greater proportion of men in the top quartile where variable reward tends to be higher.

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

Looking back on 2018

Variable reward

Variable reward outcomes for 2018 were based on key financial, risk, customer and people objectives balanced with the personal behaviours, and delivery of individual Executive Directors. This is the same approach that we take with every colleague in Metro Bank. We apply the same Company multiplier for all employees who are eligible for variable reward at the discretion of the Remuneration Committee.

We again set exceptionally stretching targets for 2018 and we had made a provisional proposal of total variable reward of 47% of salary, for the CEO; and total variable reward of 72% of salary for our new CFO, David Arden. The maximum allowed is 200% of salary. Following our announcement of 23 January 2019 regarding the RWA adjustment, Craig Donaldson asked that the Committee did not consider him for variable reward for 2018, such that he instead received an award of zero. In addition, the Committee decided to freeze vestings of share options and awards for the Executive Directors and Executive team, including share options for 2018, pending further internal analysis and any external investigations into the RWA adjustment.

Page 88 details the scorecard measures, targets and outcomes relating to 2018 (and 2017) as well as the total variable reward awarded. Following shareholder feedback we have also included enhanced disclosure on our performance.

Leadership changes

David Arden was appointed as CFO on 19 March 2018 on a salary of £400,000 and with pension and variable reward arrangements in line with those for the CEO. On joining Metro Bank David was also made a compensatory award of share options and cash in line with our Remuneration Policy. Details are on page 86 and are included in the single figure on page 87.

Mike Brierley, our former CFO, retired on 31 March 2018. Mike did not receive any variable remuneration for the portion of 2018 during which he remained in the role. We agreed, in line with our Directors' Remuneration Policy, that Mike's share options and awards would continue and vest at the normal time subject to their terms and conditions.

Looking forward to 2019

Salaries from 1 April 2019

We had a pay pot of 2.2% for 2019. The 'on-target' pay increase for inflationary and behavioural/performance-related salary increases was 1.4%. For growth and market data realignment increases, the average pay rise was 4.3% and the maximum was 21.6%. In total, 2,043 or 52.2% of all colleagues received a salary increase above the standard inflationary and behavioural/performance-related pay rise. This includes all our Cashiers, Customer Service Representatives and AMAZE Direct Representatives where our entry-level salaries have increased by between 2.78% and 5.51%.

We have also reviewed our Executive Directors' salaries. Our CEO, Craig Donaldson's salary will remain flat in 2019 at £750,000.

The salary of our new CFO, David Arden, who joined on 19 March 2018 increased by 1.25% (below the standard 'on-target' inflationary pay rise) from £400,000 to £405,000 from 1 April 2019.

Chairman's fees

The annual fees for the Chairman, Vernon W. Hill, II, remain unchanged at £385,000. The £120,000 gross annual allowance, paid in monthly instalments via PAYE as a contribution towards the Chairman's travel to/from the UK and accommodation and subsistence while here, also remains unchanged. No other expenses are payable in relation to this.

Non-Executive Director fees

The fees for our Non-Executive Directors remain unchanged at £52,500 per annum.

Variable reward for 2019

The Committee will again agree an appropriate balanced scorecard to inform the Company variable reward multiplier for 2019, based on financial, risk, customer and people objectives. We will disclose targets and measures in the Remuneration section of the Annual Report for 2019. This disclosure will include information relating to performance against those targets except where we believe it is commercially sensitive – in which case it will be disclosed once it is deemed not to be sensitive.

The majority of variable pay for Executive Directors will continue to be awarded as share options. From 2019 variable reward for PRA-designated Senior Managers (including the Executive Directors) will vest over seven years with a 12-month holding period in line with our move to a proportionality level 2 firm.

Our simple approach to variable reward, applied across the organisation, focuses executive leaders and employees on growth and the long-term, sustainable success of the business.

We do not offer LTIPs or operate any other long-term variable reward schemes.

Appropriateness of executive remuneration

We believe that the overall remuneration structure continues to be appropriate. There is significant alignment between the interests of Executive Directors and shareholders, and we take the same approach with all employees as part of our ethos to make every colleague feel like an owner. Additionally the Remuneration Committee has complete discretion to challenge the formulaic variable reward outcome where it believes it is not appropriate.

The Remuneration Policy will be reviewed in 2020 and as part of that process we will check that our structures continue to be effective, competitive and aligned with the Company's objectives. We will remain mindful of the external and regulatory environment and evolving debate on executive remuneration. All changes to the policy will be subject to shareholder approval.

Specifically we are intending to review the following aspects of executive remuneration based on investor feedback and recent regulatory and corporate governance changes:

- Formalise the shareholding requirement for Executive Directors at 200% of salary
- Retrospectively amend the policy to reflect our move to a proportionality level 2 firm from January 2019 under the PRA, FCA, and EBA remuneration rules which will require more stringent deferral rules and post vesting holding periods
- Consider what our approach should be with respect to post employment shareholding requirements

We engage with relevant organisations concerning our approach to remuneration and welcome feedback from investors and stakeholders.

We incurred professional fees of £40,900 plus VAT for remuneration advisory services from Deloitte LLP.

On behalf of the Committee, thank you for your support and I wish Roger well in his new role as Chairman[1].

Lord Flight
Remuneration Committee Chairman for the financial year ending 31 December 2018
10 April 2019

1. The above change in Committee Chair is subject to regulatory approval

REMUNERATION COMMITTEE REPORT CONTINUED

The remuneration framework in brief

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

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

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

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

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

Composition of the Remuneration Committee

In addition to the members set out on page 81, Craig Donaldson (CEO) and Vernon W. Hill, II (Chairman) attend meetings by invitation to assist the Committee in its deliberations, although not in relation to their own remuneration. The Committee receives assistance from the Chief People Officer, Danielle Harmer, who acts as the Secretary to the Committee.

Following each meeting, the Chairman provides a verbal update to the Board. The Committee minutes are also included in future Board papers. Areas of discussion are outlined here.

Key areas discussed at Remuneration Committee Meetings in 2018

Area	Topics
Policy and reporting	• Approval of Directors' Remuneration Report, including letter from Remuneration Committee Chairman and Remuneration Policy • Gender pay and approach to reporting 2018 data • New Remuneration Committee Terms of Reference • Feedback on 2017 Annual Report
Reward	• 2018 Annual Reward Review for all colleagues – including multiplier for variable reward, awards (for 2017 performance year), pay outcomes and CEO summary • Remuneration for Executive Directors, members of the Executive Leadership Team and Director of Internal Audit • Fees for Chairman and Non-Executive Directors • Share options – number available for granting, dilution policy, approval of exchange value and VWAP to apply to the 2019 grant (for 2018 performance year) • Discretionary decisions regarding retention of share options by former employees • Accelerated vesting of share options for two Non-Executive Directors (Roger Farah and Sir Michael Snyder) • Review of Metro Bank Group Personal Pension Plan (Governance Report)
Regulation	• Regulation guidelines on remuneration and move to a proportionality level 2 firm • Remuneration Code Annual Disclosure for 2018 • Ex-post checks for October and November 2018 share option vests • CRO review of FCA remuneration guidelines, including ex-ante checks • Director of Internal Audit sign-off of 2018 Reward Review • Annual review of Remuneration Committee Terms of Reference • New Corporate Governance Code requirements and changes to Remuneration Report legislation • Remuneration Committee Annual Effectiveness Review

REMUNERATION AT A GLANCE

WE SET STRETCHING TARGETS FOR 2018

- Underlying profit before tax increased by 140% to £50 million
- Customer accounts increased from 1.22 million to 1.62 million
- Deposits increased from £11.7 billion to £15.7 billion
- Lending increased from £9.6 billion to £14.23 billion

Balanced scorecard remuneration outcome for Company performance multiplier

	Weighting	Weighted performance outcome
A Financial – see detail below[1]	30%	14.5%
B Risk	20%	18.3%
C Customer	35%	25.4%
D People	15%	13.8%
Total	100%	72.0%

Variable reward for all employees

On-target variable reward X Company multiplier X Individual behaviours and delivery multiplier = Total variable reward

Application to Executive Directors

- Each Executive Director is eligible for an on-target variable reward opportunity of 100% of salary

- For each of the individual Company performance metrics the multiplier range is 80%–120%
- For each performance metric, there will be no payment at all until performance for that metric has reached gateway performance
- At gateway performance 80% of the multiplier will apply and at maximum performance 120% of the multiplier will apply

- The range of the individual multiplier is 0%–200%
- If the Company multiplier doesn't exceed expected performance, the maximum individual multiplier that will be applied is 150%
- The multiplier is applied by reference to each colleague's individual behaviours and performance in the year

CAP APPLIED

200% OF SALARY

- Variable remuneration will not exceed 200% of salary for Executive Directors

2018 remuneration outcomes

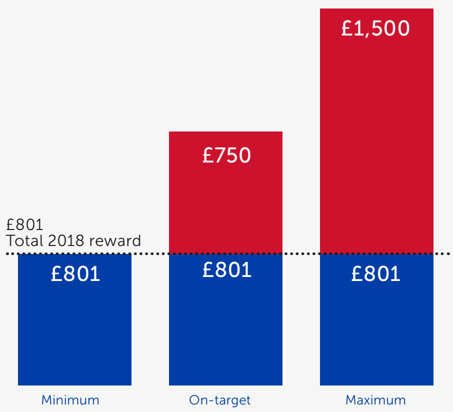
A) Financial 14.5% + B) Risk 18.3% + C) Customer 25.4% + D) People 13.8% = 72% x Individual Multipliers = Total Variable Reward

[1]Financial measures	Weighted multiplier
Deposit performance	4.50%
Lending performance	4.50%
Customer accounts	5.50%
Underlying profit	0.00%

2018 remuneration outcomes for Executive Directors[2]

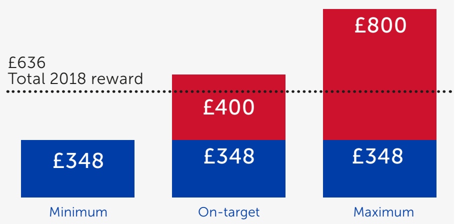
Craig Donaldson – CEO

£'000



David Arden – CFO

£'000



Fixed pay
Variable pay

2 2018 Remuneration outcome for David Arden excludes the compensatory buyout award of share options and cash made to him on joining. See page 86

REMUNERATION AT A GLANCE CONTINUED

Directors' Remuneration Policy in brief

The table below sets out the key features of our Remuneration Policy, and how it will be implemented in 2019. The Policy was approved by shareholders at our AGM on 25 April 2017. Full details of the approved Policy can be found on the Company website. The Policy will next be reviewed in 2020.

Key elements of remuneration	Key features of the Policy	Implementation for 2019
Salary	• Reviewed annually and increases will normally be in line with increases awarded to other colleagues • There may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, where the size and scope of a particular role is increasing as the organisation grows	• Craig Donaldson CEO: £750,000 (unchanged) • David Arden CFO: £405,000 (1.25% increase from £400,000)
Benefits	Core benefits include: • Life assurance of 4x salary • Private medical insurance for the Executive Director, their partner and children • Additional benefits may be provided in certain circumstances such as on relocation • Income protection is in place for the CEO as a legacy scheme • Executive Directors will be eligible to participate in any all-employee Share Incentive Plan ('SIP')	• Benefits are provided in line with the approved Policy
Pension	• Executive Directors are automatically enrolled into our Group Personal Pension Plan ('GPPP') when they join the Bank. If they have exceeded the Life Time Allowance or the annual pension tax-free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit • The maximum employer contribution (including cash in lieu) is 10% of salary	None of the Executive Directors has a prospective right to a defined benefit pension Company contributions: • Craig Donaldson: 10% of salary • David Arden: 10% of salary
Variable remuneration	• Discretionary variable reward scheme in which all eligible colleagues participate, based on behaviours and performance over the year, paid in the form of cash and share awards for all colleagues • For Executive Directors at least 50% is deferred into long-term share awards, normally in the form of share options, and a further 25% is deferred into one-year vesting share awards, again normally share options. The remaining 25% is paid as cash • Total variable remuneration, including the fair value of share awards, for each Executive Director for any year, will not exceed 200% of their base pay at the time of award • The variable reward pool for any year is based on the overall performance of the Bank in terms of culture and delivery in line with the balanced scorecard • Malus and clawback apply to all deferred variable remuneration • Variable remuneration is subject to a risk adjustment process and input from the Chief Risk Officer • The Company has the flexibility to make compensatory awards to new Executive Directors, to compensate them for benefits they may lose as a result of joining Metro Bank. The 200% limit on variable remuneration will not apply to these compensatory awards	• The total variable reward opportunity, expressed as a percentage of salary, will be 100% for on-target performance, and 200% at maximum performance • The weightings of the performance measures that will make up the balanced scorecard for 2019 will be as follows: – Financial 30% – Risk 20% – Customer 35% – People 15% • Mike Brierley retired on 31 March 2018 and was not awarded any variable remuneration for his employment during 2018 • David Arden (new CFO) joined the Company on 19 March 2018. Share options to the value of £300,000 have been granted to compensate David for the lapsing of deferred awards that were made to him by his former employer under its annual and long-term incentive plans, if he had not resigned, with no performance conditions other than continued service. The share options will vest pro-rata over five years. To recognise the loss of payments that would have been made to him by his former employer, a one-off payment of £160,000 was also made. In determining the level of compensatory awards, the Company has taken account of the value of the awards forfeited, the time horizons of the awards and the performance hurdles attached to them in line with our policy
Non-Executive Directors	• All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member • Additional fees are paid for added responsibilities such as chairmanship and membership of Committees, or acting as the Senior Independent Director • The basic and additional fees are reviewed periodically, drawing on external market information for comparable financial services groups and companies • The Chairman receives a monthly allowance, in addition to fees, as a contribution towards travel to and from the US and towards living expenses while he is in the UK	• Our Non-Executive Directors are paid in line with the approved Policy • The basic annual fee paid to all Non-Executive Directors remains unchanged at £52,500 • The annual fees for the Chairman remain unchanged at £385,000 as does his allowance for travel and subsistence of £120,000 gross per annum. No other expenses are payable in relation to this

ANNUAL REPORT ON REMUNERATION

This section sets out how the Remuneration Policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2018, and how it will be implemented in 2019. This section will, together with the annual statement by the Chairman of the Remuneration Committee, be put to shareholders for an advisory vote at the 2019 AGM.

Single total figure of remuneration – Executive Directors (audited)

Annual remuneration (£)

The following sets out the remuneration for the current Executive Directors.

	Craig Donaldson		David Arden joined on 19 March 2018	
	2018	2017	2018	2017
Salary	£725,000	£650,000	£315,152	–
Taxable benefits[1]	£1,027	£1,067	£274	–
Variable pay, including deferred element[2]	£0	£800,000	£288,000[5]	–
Pension benefits[3]	£72,500	£65,000	£31,515	–
Other[4]	£2,417	£2,826	£650	–
Buyouts	–	–	£460,000[6]	–
Total remuneration	£800,944	£1,518,893	£1.095,591	–

This is the remuneration for Mike Brierley (former CFO) who retired on 31 March 2018.

	Mike Brierley	
	2018	2017
Salary	£93,750	£368,750
Taxable benefits[1]	£205	£1,067
Variable pay, including deferred element[2]	£0	£400,000
Pension benefits[3]	£9,375	£36,875
Other[4]	£2,044	£7,214
Total remuneration	£105,374	£813,906

Notes:
1. Taxable benefits include private medical insurance for the CEO and both incoming and outgoing CFOs
2. 75% of the total variable pay awarded is converted into share options – see page 90. Any share options awarded are included in this figure; they are not in addition to it. There is a continued service condition attached to the award of options
3. Pension contributions for the Executive Directors may be paid into a Group Personal Pension Plan or paid as a cash in lieu of pension allowance. Both have opted out of the pension scheme as they have reached the Life Time Allowance and receive a cash allowance of 10% of salary
4. This is made up of non-taxable benefits provided to the Executive Directors and includes life assurance, Group income protection (legacy scheme) and an annual health check
5. This award reflected 2018 in full and was not pro-rated for time served. David Arden did not receive any variable reward from his former employer, and no buyout award was provided to him, in respect of the period covering 1 January to 19 March 2018. The Committee elected instead to provide a full year's variable pay award in respect of 2018, such that the entire award was subject to the Company's performance and his individual contribution during the year, and also to our normal deferral time horizons as well as malus and clawback terms.
6. David Arden (new CFO) joined the Company on 19 March 2018. To compensate David for the lapsing of deferred awards that were made to him by his former employer under its annual and long-term incentive plans, if he had not resigned, share options have been granted to him to the value of £300,000, with no performance conditions other than continued service. The share options will vest pro-rata over five years. To recognise the loss of payments that would have been made to him by his former employer, a one-off payment of £160,000 was also made. In determining the level of compensatory awards, the Company has taken account of the value of the awards forfeited, the time horizons of the awards and the performance hurdles attached to them.

Details of the single figure

Salary

	Salary as at 1 January 2018	Salary as at 1 April 2018	Total salary paid in 2018
Craig Donaldson	£650,000	£750,000	£725,000
Mike Brierley left 31 March 2018	£375,000	n/a	£93,750
David Arden joined 19 March 2018	n/a	£400,000	£315,152

2018 variable reward outcomes

As set out in the Remuneration Policy approved by shareholders at the AGM on 25 April 2017, the Executive Directors' variable reward in relation to performance during 2018 was based on a balanced scorecard of performance measures and objectives, weighted between financial (30%), risk (20%), customer (35%) and people (15%). Amounts shown reflect the total awards under the variable reward scheme paid in 2019, based on performance in the financial year ending 31 December 2018, including the value of any deferred element.

In addition to the Company multiplier, a further multiplier based on individual behaviours and performance was also applied to the balanced scorecard remuneration outcome. The tables below illustrate performance against each of the balanced scorecard measures. As set out on page 91, this approach and multiplier are consistent with that applied for all colleagues across the Bank.

ANNUAL REPORT ON REMUNERATION CONTINUED

Financial performance

Performance measure	Weighted performance outcome at gateway[1]	Gateway (threshold) performance	Weighted performance outcome at target[2]	2018 target performance	Weighted performance outcome at maximum[3]	Maximum performance	Weighted performance outcome	Actual performance outcome
Deposit performance £m	4.0%	14,783	5.0%	16,426	6.0%	18,069	4.5%	15,661
Lending performance £m	4.0%	13,286	5.0%	14,763	6.0%	16,239	4.5%	14,234
Customer accounts no. m	4.0%	1.38	5.0%	1.54	6.0%	1.69	5.5%	1.62
Underlying profit %	12.0%	90%	15.0%	100%	18.0%	110%	0%	69%
Total for financial measures	**24.0%**		**30.0%**		**36.0%**		**14.5%**	

1. 80% of weighting is applied for gateway performance i.e. at 90% of target. There is a step progression of 5% in the multiplier of the weighted performance outcome from 80% to 120% for every 2.5% in performance from 90% to 110%
2. 100% of weighting is awarded for on-target performance
3. Maximum multiplier is 120% of weighting which is applied for performance of 110% or more

Non-financial Company objectives

	Objectives	Key achievements in 2018	2018 Weighting	2018 Weighted performance outcome
Risk	Key measures relating to Internal Audit, credit quality – arrears[1] and anti-money laundering controls	Credit quality is good and has been capped at 100%. The majority of our audits had good outcomes where controls evaluated were adequate and effective. Our first line anti-money laundering controls operated above threshold. The weighted performance outcome does not take into account the impact of the RWA adjustment as this was not an objective under the 2018 scorecard. As mentioned above, the Committee has decided to freeze vestings of share options and awards for the Executive Directors and Executive team, including share options for 2018, pending further internal analysis and any external investigations into the RWA adjustment.	20%	18.3%
Customer	Key measures relating to Net Promoter Scores, call centre service, customer complaints, and magic (mystery) shopping	With our customer-focused model, we set stretching goals in this area and it represents 35% of total Company weighting. Our Net Promoter Score was over target. The Company Mystery Shopping programme was above threshold. Call centre service via AMAZE Direct was at target and we were below threshold for our responsiveness on complaints. The new measure for CMA service quality results, where we performed strongly, was not included in the scorecard for 2018.	35%	25.4%
People	Key measures relating to voluntary attrition[2], diversity, compliance training and being a 'good place to work'	In our annual colleague survey 96% of people agreed that Metro Bank is a good place to work. Voluntary attrition has improved during the year to an all-time low (capped at 100%) and we consistently see our people doing their regulatory training on time. We also have a new measure for inclusion, tracking gender and ethnic diversity in our senior leaders.	15%	13.8%

1. Credit quality for arrears was capped at 100%
2. Voluntary attrition was capped at 100%

Note: As above for financial measures, 80% of weighting is applied for gateway performance – i.e. at 90% of target. There is a step progression of 5% in the multiplier of the weighted performance outcome from 80% to 120% for every 2.5% in performance from 90% to 110%. 100% of weighting is awarded for on-target performance. Maximum multiplier is 120% of weighting which is applied for performance of 110% or more

Overall balanced scorecard remuneration outcome or Company performance multiplier

	Weighting	Weighted performance outcome
A Financial	30%	14.5%
B Risk	20%	18.3%
C Customer	35%	25.4%
D People	15%	13.8%
Total	**100%**	**72.0%**

See how our balanced scorecard measures link to our strategy on page 11

Based on the assessment of performance against the balanced scorecard outcomes outlined above, we applied a Company performance weighting of 72% for 2018. This weighting was applied for all eligible colleagues across the Bank, including the Executive Directors.

Following our announcement in January 2019 regarding the RWA adjustment, the Committee decided to freeze vestings of share options and awards for the Executive Directors and Executive team, including share options for 2018, pending further internal analysis and any external investigations into the RWA adjustment.

Individual behaviours and performance multiplier

A discretionary multiplier was applied to variable reward for all eligible colleagues, by reference to each colleague's individual behaviours and performance for the year. Below, we set out details of the individual multipliers, in respect of our Executive Directors for 2018, which were determined by the Remuneration Committee. Following our announcement on 23 January 2019 regarding the RWA adjustment, Craig Donaldson asked that the Committee did not consider him for variable reward for 2018.

Executive Director	Key achievements in 2018	Individual behaviours and performance multiplier
Craig Donaldson	Craig led the Company through another year of significant growth and delivery with profits up to £50 million, loans up 48% and a £4 billion increase in deposits, all against stretching targets. This was balanced with a Common Equity Tier 1 ('CET1') ratio of 13.1% and a high-quality loan book. The Company continued to invest in its physical, people and digital capabilities and in 2018 opened a further 10 stores, giving customers more choice about how, when and where they bank with Metro Bank. Customer data from internal measures and also the Competition and Markets Authority rankings were very strong. Craig was recognised as one of the highest-rated CEOs on Glassdoor, and the Company was ranked among Glassdoor's best places to work evidencing the customer-focused leadership he provides to colleagues and the Company. Narrow margins and higher than anticipated costs meant profits were lower than budgeted and we adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million, as announced in January 2019. The Remuneration Committee had provisionally determined a personal multiplier of 65%[1] for Craig Donaldson in recognition of these issues (134% for 2017). However, as referenced above Craig asked that the Committee did not consider him for variable reward for 2018 so he received zero variable reward for 2018.	65%[1]
David Arden	David has made a strong start in his role as CFO. He oversaw significant growth in profitability during another year of exceptional investment in growth and customer experience. David's team manage capital, costs and revenue aligned to the Company's short, medium and long-term goals. Asset and liability management remain conservative. The financial control environment is strong as attested by both internal and external review. In addition, the Finance, Treasury, Legal and Company Secretarial, Procurement and Investor Relations teams that David is accountable for delivered high levels of service to their internal customers and external stakeholders.	100%[1]

1. As mentioned above the Committee has frozen vesting of share options for 2018 for the Executive Directors and Executive Team, including David, pending further internal analysis and any external investigations into the RWA adjustment

Calculation of variable pay for the Executive Directors

As set out in the 2017 Directors' Remuneration Report, each Director was eligible for an on-target variable reward opportunity of 100% of salary in respect of the financial year ending 31 December 2018. Mike Brierley (the former CFO who left on 29 March 2018) was not awarded any variable reward for 2018.

In line with the above and our approach for all colleagues, the variable reward for the Executive Directors was as follows.

Executive Director	On-target variable reward	Company performance multiplier	Individual behaviours and performance multiplier		Total variable reward
Craig Donaldson	£750,000	72%	65%	=	£0[1]
David Arden	£400,000	72%	100%	=	£288,000

1. Following our announcement of 23 January 2019 regarding the RWA adjustment Craig Donaldson asked that the Committee did not consider him for variable reward for 2018

ANNUAL REPORT ON REMUNERATION CONTINUED

How variable reward is paid

In line with the Policy approved by shareholders at the AGM on 25 April 2017, at least 50% of all variable reward for Executive Directors must be deferred into long-term share awards, and a further 25% is deferred into one-year vesting share awards. The remaining 25% is paid in cash. As mentioned above, following our announcement in January 2019 regarding the RWA adjustment Craig Donaldson asked that the Committee did not consider him for variable reward for 2018.

Share awards in respect of the year ending 31 December 2018 were deferred into market price share options, the fair value of which was informed by the Black-Scholes methodology. Market price share options are implicitly performance related, as they will not accrue any value unless Metro Bank's share price increases over the long term. Our approach to deferring into market price share options is operated for all colleagues – it supports our reward principle to make everyone an owner, and aligns all colleagues with the Bank's long-term vision.

Executive Director	Total 2018 variable reward	Element of variable reward	Quantum	Method of delivery[1]
David Arden	£288,000	Cash (25%)	£72,000	Paid immediately in cash. In line with the approved Policy.
		One-year share options (25%)[1]	£72,000	9,600 one-year options vesting fully a year after grant.
		Long-term share options (50%)[1]	£144,000	19,200 five-year options with the first vesting a year after grant and in equal annual instalments thereafter.

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

1. Any share options awarded were granted at an option price based on the Volume Weighted Average Share Price ('VWAP') for MTRO on 1 April. All share options awarded are frozen pending further internal analysis and any external investigations into the RWA adjustment

2017 Balanced Scorecard Performance

As previously committed we are now providing further disclosure on the financial metrics, targets and performance for the 2017 financial year.

Financial performance 2017

Performance measure	Weighting	2017 Target	Actual	% of target	Multiplier	Weighted performance[3]
Deposit performance (£'billion)	5%	11.3	11.7	104%	104%	5%
Lending performance (£'billion)	5%	9.4	9.6	102%	102%	5%
Capital adequacy %[1]	5%	100%	100%	100%	100%	5%
Customer accounts	5%	1,216,000	1,216,624	100%	100%	5%
Profitability %[2]	10%	100%	95%	95%	95%	9%
Total for financial measures						**30%[3]**

Notes:

1. Capital adequacy was capped at 100% for 2017. At this stage, we expect that taking into account the adjustment to the RWAS on some of our commercial loans (i.e. the RWA adjustment announced in January 2019) will not reduce performance below 100%, but if in due course we find that it would have done, or for other reasons think it appropriate, the Remuneration Committee will consider applying performance adjustment to these amounts
2. Profitability for 2017 is a blended measure of profit before tax, revenue and costs versus budget
3. Rounded to nearest percent

Overall 2017 Balanced Scorecard remuneration outcome or Company performance multiplier

	Weighting	Weighted performance[1]
Financial	30%	30%
Risk	20%	18%
Customer	35%	29%
People	15%	15%
Total	**100%**	**92%**

1. Rounded to nearest percent

Remuneration for employees below Board level

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

Our Directors' Remuneration Policy, as approved by shareholders at the AGM on 25 April 2017, was developed by reference to our reward principles, which apply to all colleagues:

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

Summary of the remuneration structure for employees below Board level

Salary

- We have a 'normal' inflationary and performance-related pay pot of 2.2%
- The quantum of salary increases are primarily driven by individual behaviours
- We also review salaries for roles that we deem are growing rapidly in scale and/or complexity and are critical to the business and for those colleagues which market data suggests are falling behind the market rates for their roles

Benefits

- All colleagues are eligible for private medical insurance funded at different rates of cover depending on their level of seniority
- All colleagues, including the Executive Directors, receive a benefit of death in service life cover of four times their base salary

Pension

- The table below shows the minimum and maximum employer pension contributions payable by Metro Bank year-on-year

Variable remuneration

- All employees are eligible for share options or an equivalent, in line with our strong ethos of employee buy-in and ownership
- We apply the same Company performance multiplier to all colleagues
- For all colleagues whose personal behaviours and delivery are as expected or better we apply a multiplier up to a maximum of 200%

Pension contributions[1]

	2018		2017		% increase	
Employer contribution as a % of salary	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
CEO	10%	10%	10%	10%	0%	0%
Executive Directors & Executive Leadership Team	10%	10%	10%	10%	0%	0%
Senior leaders and experts	9%	10%	8%	10%	11.1%	0%
Managers and specialists	8%	8%	7%	8%	12.5%	0%
Entry-level roles	6%	6%	6%	6%	0%	0%

1. Data at 1 April each year

CEO reward vs. employee reward

The table below sets out the percentage change between the 2017 and 2018 years in salary and variable reward.

% change 2017/18

	Median		Average	
Employee group	FTE salary	FTE[4] variable reward	FTE salary	FTE variable reward
All employees[1]	9.9%	4.2%	8.1%	-25.5%
CEO[2]	15.4%	-100%	15.4%	-100%
Executive Leadership Team[3]	1.8%	-37.5%	8.4%	-54.1%

1. Due to the significant growth at Metro Bank, data has been calculated using the same colleagues over the two-year period. This only includes colleagues who were employed by Metro Bank on or before 1 January 2017 and still employed on or after 31 December 2018. Any colleagues who joined or left the Bank within this period have been excluded from the analysis. Salary is taken as at 31 December 2017 and 31 December 2018
2. As mentioned above, following our announcement in January 2019 regarding the RWA adjustment, Craig Donaldson asked that the Committee did not consider him for variable reward for 2018. The CEO received a 15.4% pay increase in 2018 but did not receive a pay increase this year
3. The CFO is not included in this figure as neither David Arden nor Mike Brierley were employed across the entire same store period – i.e. between 1 January 2017 and 31 December 2018
4. FTE: full-time equivalent

ANNUAL REPORT ON REMUNERATION CONTINUED

CEO to employee pay ratio disclosure

Year	Calculation methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	CEO salary	25th percentile salary	Median salary	75th percentile salary	CEO total pay	25th percentile total pay	Median total pay	75th percentile total pay
2018	A	**36:1**	**28:1**	**16:1**	£725,000	£19,300	£25,100	£40,500	£801,000	£22,200	£28,400	£49,300
2017	A	69:1	54:1	30:1	£650,000	£19,200	£24,800	£40,000	£1,518,900	£22,000	£28,100	£50,300

Salary and total pay figures have been rounded to the nearest £100

The lower, median and upper-quartile colleagues were determined using the 'single figure' approach (Option A) to calculating total remuneration for all colleagues employed on 31 December 2018. This methodology was chosen as it is the purest approach.

Three colleagues were identified whose full-time equivalent total remuneration places them at the 25th, 50th and 75th percentiles. Colleague total remuneration includes salary, allowances, employer pension contributions, Company-funded health and risk benefits, referral bonuses as well as total variable reward awarded in 2019 in respect of the 2018 performance year. All elements were calculated on a full-time equivalent basis. We are confident that the colleagues identified are representative of the lower, median and upper quartiles and the median pay ratio is consistent with the Company's wider policies on colleague pay, reward and progression.

As this is the first year using the revised reporting requirements, we have provided the CEO pay ratio for 2017 as a comparison. The Committee recognises that the CEO pay ratio will be volatile. The ratio has decreased in 2018 partly as a result of Craig Donaldson asking the Committee to not consider him for variable reward for 2018.

Relative importance of spend on pay

The table below shows total remuneration of all employees for 2018 compared to 2017. This data is taken from the people costs on page 119 and excludes social security costs.

	2018 £'million	2017 £'million	% change
Employee costs	**128.0**	102.0	25.5

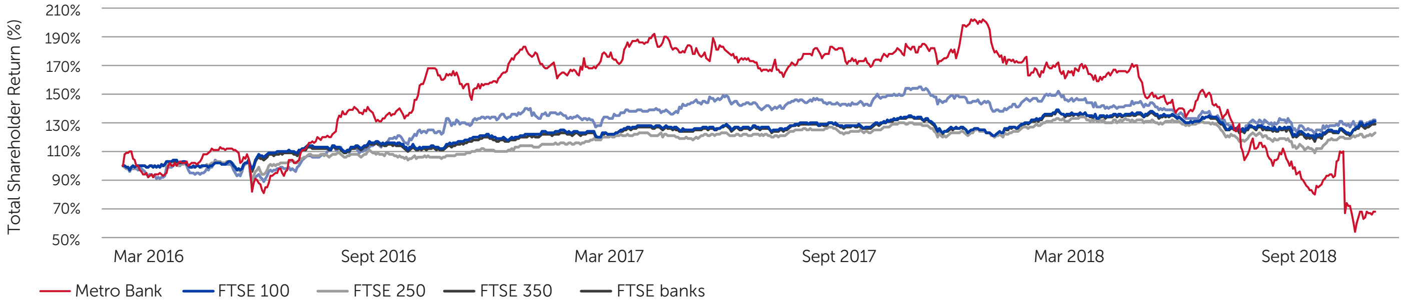
The costs have increased as a result of the growth in the average number of employees from 2017 to 2018.

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

Total shareholder return

The chart shows our total shareholder return ('TSR') relative to the FTSE 250, FTSE 100 and the FTSE 350 banks (which is the capitalisation-weighted index of all bank stocks in the FTSE 100 and FTSE 250). These indices have been chosen as they represent a cross-section of UK companies and banks.

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



CEO historic remuneration

	Craig Donaldson						
	2018	2017	2016	2015	2014	2013	2012
Total remuneration (including any Listing awards)	£800,944[1]	£1,518,893	£1,304,919	£2,661,474[2]	£749,443	£1,294,100	£543,947
Variable reward outcome as a percentage of the maximum that could have been paid[3]	0%	62%	52%	n/a[4]	n/a[4]	n/a[4]	n/a[4]

1. The figure for 2018 takes into account zero variable reward for Craig Donaldson in light of his request that the Committee does not consider him for variable reward for 2018
2. As disclosed in the Prospectus and 2016 Annual Report, Craig Donaldson received a higher variable reward for 2015 in the form of Share Awards, granted in March 2016, in recognition of his significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange, as well as his performance in 2015. No other variable reward for the 2015 performance year was awarded. The Listing Share Award is subject to continued employment and no further performance conditions apply to vesting. Further details are included in the shareholding table on page 94 and outstanding share awards table on page 95. As mentioned above the vesting of these share awards will be frozen pending further internal analysis and any external investigations into the RWA adjustment
3. Our Directors' Remuneration Policy containing a maximum variable reward outcome was first approved by shareholders at the AGM on 25 April 2017. Under our Remuneration Policy, approved by shareholders in 2017, variable reward is capped at 200% of salary
4. Prior to approval of the Policy this cap was not in place

Non-Executive Directors' remuneration

Chairman's fees

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

Non-Executive Directors' fees

The Non-Executive Directors are paid a basic fee, with further fees payable to reflect Board Committee memberships and chairmanships and/or additional responsibilities such as Senior Independent Director. Fees are reviewed annually. The fees are benchmarked against financial services and other FTSE 250 companies.

The basic fee for Non-Executive Directors, which was last increased in April 2018, remains unchanged at £52,500. The latest fees are shown below including the fee attracted by the new Deputy Chairman role and also the Designated NED for Workforce Engagement:

Role	Annual fee (£'000)
Non-Executive Director – basic fee	52.5
Senior Independent Director or Deputy Chairman	30.0
Chairman of Audit or Risk Committee or Designated NED for Workforce Engagement	20.0
Chairman of Nomination or Remuneration[1] Committee	10.0
Member of Audit, Risk or Remuneration Committee	10.0
Member of Nomination Committee	5.0

1. In the 2017 Annual Report we misreported the fee for Remuneration Committee Chair as £20,000. It is £10,000 per annum as per the table above

The table below shows the actual fees paid to our Chairman and Non-Executive Directors in 2018 and 2017.[1]

	Vernon W. Hill, II[2]		Stuart Bernau		Catherine Brown[3]		Keith Carby		Roger Farah[4]	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Fees	£385,000	£376,667	£90,625	£85,000	£13,125	n/a	£75,625	£68,750	£65,625	£58,750
Taxable benefits	£120,000	£120,000	£0	£0	£0	n/a	£0	£0	£5,190	£0
Total	£505,000	£496,667	£90,625	£85,000	£13,125	n/a	£75,625	£68,750	£70,815	£58,750

	Howard Flight		Alastair (Ben) Gunn		Gene Lockhart[4]		Anna (Monique) Melis[5]		Sir Michael Snyder	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Fees	£85,625	£78,750	£90,625	£85,000	£90,625	£85,000	£58,958	£22,500	£70,625	£65,000
Taxable benefits	£0	£0	£0	£0	£8,568	£0	£0	£0	£0	£0
Total	£85,625	£78,750	£90,625	£85,000	£99,193	£85,000	£58,958	£22,500	£70,625	£65,000

Notes:
1. These figures include all fees paid to the Senior Independent Director and to Non-Executive Directors for Board Committee memberships and Committee chairmanships
2. A gross allowance is paid to the Chairman monthly via PAYE as a contribution towards his travel to/from the UK and accommodation and subsistence while here. He does not claim any expenses in relation to this
3. Appointed 1 October 2018
4. For our US-resident Non-Executive Directors all travel is covered by a PAYE Settlement Agreement ('PSA'). Food and lodging are put through payroll and taxed accordingly, rounded up to the nearest £
5. Appointed 1 July 2017

ANNUAL REPORT ON REMUNERATION CONTINUED

Payments to past Directors
There were no payments made to past Directors in 2018 other than Mike Brierley in the course of his normal employment as detailed above.

Payments for loss of office
There were no payments for loss of office made to Directors in 2018, including Mike Brierley.

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

Statement of voting at the AGM
We will be proposing a resolution to shareholders in respect of the Annual Report on Remuneration at the 2019 AGM.

The table below shows the voting outcomes on the Annual Report on Remuneration at the last AGM on 24 April 2018 and the Directors' Remuneration Policy at the AGM held 25 April 2017.

Item	For %	For no.	Against %	Against no.	Votes withheld
Remuneration Policy	95.4%	41,582,506	4.6%	1,989,312	343,211
2017 Remuneration Report	93.5%	66,447,203	6.5%	4,620,794	255,885

Shareholding
These are the total shareholdings as at 31 December 2018 for each of the Non-Executive Directors and Executive Directors[1] and any related connected persons. Outstanding share awards, including share options, are summarised on pages 95 to 97.

Director	No. of shares	Percentage of issued share capital
Vernon W. Hill, II	5,080,344	5.21%
Craig Donaldson[2]	170,342	0.18%
David Arden	3,400	0.00%
Stuart Bernau	50,154	0.05%
Catherine Brown	100	0.00%
Keith Carby	38,320	0.04%
Roger Farah	685,023	0.70%
Lord Flight	29,116	0.03%
Alastair (Ben) Gunn	49,864	0.05%
Gene Lockhart	34,989	0.04%
Anna (Monique) Melis	700	0.00%
Sir Michael Snyder	28,300	0.03%
Total	**6,170,652**	**6.33%**

1. Mike Brierley also held 91,165 shares when he retired on 31 March 2018. This figure is not included in the table above
2. 26,622 of Craig Donaldson's shares which were awarded in connection with the Listing have not yet vested and are conditional in line with the rules of the long-term deferred variable reward plan

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

Since the year end and up to 31 March 2019, the Company was notified of the following transactions in shares by Directors and their connected persons:

- Monique Melis purchased 990 shares
- Craig Donaldson purchased 11,100 shares
- Vernon W. Hill, II purchased 30,000 shares

Directors' shareholdings
Shareholding guidelines
Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary and this will be formalised in our revised Remuneration Policy in 2020 subject to shareholder approval. We will allow any new Executive Director a reasonable amount of time to build up their shareholding.

Craig Donaldson has met the shareholding requirement of 200% of his annual salary. David Arden has purchased 3,400 shares and as he only joined the Company on 19 March 2018 we are allowing him time to build up his shareholding.

Outstanding share awards (audited)

Options have an exercise price that is equal to market value at the date of grant; share options from CSOP 2016 onwards are based on the Volume Weighted Average Share Price ('VWAP') for MTRO on a date determined by the Remuneration Committee.

We have not awarded share options to Non-Executive Directors since 2015 (relating to the 2014 performance year). No dividends or dividend equivalents are payable on any share options or on any unvested share awards held.

The tables below show, for each Executive Director and Non-Executive Director as at 31 December 2018:

- the total number of share awards, shares granted or interests in shares granted and the award price; and
- the total number of outstanding share awards.

Vernon W. Hill, II

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of share awards exercised
CSOP2015	15,000	04/11/15	£16.00	31/10/16	31/10/20	9,000	0
CSOP2014	60,000	31/10/14	£13.50	31/10/15	31/10/19	48,000	0
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	5,000	0
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0
Total	**86,000**					**68,000**	**0**

Craig Donaldson

Scheme name	Share options granted	Shares awarded	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of shares vested	No. of share awards exercised
CSOP2018 Deferred Cash 1 yr	20,000		31/03/18	£35.36	30/04/19	30/04/19	0		0
CSOP2018 Bonus Exchange	20,000		31/03/18	£35.36	31/03/18	31/03/18	20,000		0
CSOP2018	40,000		31/03/18	£35.36	30/04/19	30/04/23	0		0
CSOP2017	33,637		31/03/17	£32.73	30/04/18	30/04/22	6,727		0
CSOP2017 Deferred Cash 1 yr	16,819		31/03/17	£32.73	30/04/18	30/04/18	16,819		0
CSOP2017 Bonus Exchange	16,819		31/03/17	£32.73	31/03/17	31/03/17	16,819		0
CSOP2016 Pension Exchange	4,541		04/03/16	£20.00	21/03/16	21/03/16	4,541		0
CSOP2015	30,000		04/11/15	£16.00	31/10/16	31/10/20	18,000		0
CSOP2015 Bonus Exchange	20,000		20/03/15	£14.00	20/03/15	20/03/15	20,000		0
CSOP2014	130,000		31/10/14	£13.50	31/10/15	31/10/19	104,000		0
CSOP2014 Bonus Exchange	13,077		21/03/14	£13.00	21/03/14	21/03/14	13,077		0
CSOP2013	30,000		11/11/13	£12.00	11/11/16	11/11/18	30,000		0
CSOP2012	50,000		31/10/12	£10.00	31/10/13	31/10/15	50,000		0
CSOP2011	11,000		07/10/11	£9.00	07/10/12	07/10/14	11,000		3,333[1]
Listing awards		55,459	04/03/16					28,837	0
Total	**435,893**	**55,459**					**310,983**	**28,837**	**3,333**

1. Share price on date of exercise 23 February 2017: £35.87. Gain £89,558

David Arden

Scheme name	Share options granted	Shares awarded	Award date	First vesting date	Award price	Last vesting date	No. of share options vested	No. of shares vested	No. of share awards exercised
CSOP2018	30,000		31/03/18	30/04/19	£35.36	30/04/23	0	0	0
Total	**30,000**						**0**	**0**	**0**

ANNUAL REPORT ON REMUNERATION CONTINUED

Mike Brierley

Scheme name	Share options granted	Shares awarded	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of shares vested	No. of share awards exercised
CSOP2018 Deferred Cash 1 yr	10,000		31/03/18	£35.36	30/04/19	30/04/19	0		0
CSSOP2018 Bonus Exchange	10,000		31/03/18	£35.36	31/03/18	31/03/18	10,000		0
CSOP2018	20,000		31/03/18	£35.36	30/04/19	30/04/23	0		0
CSOP2017	15,750		31/03/17	£32.73	30/04/18	30/04/22	3,150		0
CSOP2017 Deferred Cash 1 yr	7,875		31/03/17	£32.73	30/04/18	30/04/18	7,875		0
CSOP2017 Bonus Exchange	7,875		31/03/17	£32.73	31/03/17	31/03/17	7,875		0
CSOP2015	15,000		04/11/15	£16.00	31/10/16	31/10/20	9,000		0
CSOP2015 Bonus Exchange	12,637		20/03/15	£14.00	20/03/15	20/03/15	12,637		0
CSOP2014	32,500		31/10/14	£13.50	31/10/15	31/10/19	26,000		0
CSOP2013	14,000		11/11/13	£12.00	11/11/16	11/11/18	14,000		0
CSOP2012	10,000		31/10/12	£10.00	31/10/13	31/10/15	10,000		0
CSOP2011	5,000		07/10/11	£9.00	07/10/12	07/10/14	5,000		3,333[1]
Listing awards		32,054	04/03/16					16,666	0
Total	**160,637**	**32,054**					**105,537**	**16,666**	**3,333**

1. Share price on date of exercise 23 February 2017: £35.87. Gain £89,558

Stuart Bernau

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of share awards exercised
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	4,500	0
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	12,000	0
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	5,000	0
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	2,000[1]
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	4,000[2]
Total	**33,500**					**27,500**	**6,000**

1. Share price on date of exercise 16 August 2016: £23.25. Gain £26,500
2. Share price on date of exercise 28 April 2016: £20.30. Gain £45,200

Keith Carby

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of share awards exercised
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	4,500	0
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	12,000	0
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	5,000	0
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0
Total	**33,500**					**27,500**	**0**

Roger Farah – all of Roger's share options were vested and exercised during 2018. There are no options outstanding.

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

1. Share price on date of exercise 21 September 2018: £30.30. Gain £107,250

Lord Flight

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of share awards exercised
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	4,500	0
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	12,000	0
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	5,000	0
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0
Total	**33,500**					**27,500**	**0**

Alastair (Ben) Gunn

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of share awards exercised
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	4,500	0
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	12,000	0
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	5,000	0
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	2,000[1]
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	4,000[1]
Total	**33,500**					**27,500**	**6,000**

1. Share price on date of exercise 5 June 2017: £38.02. Gain £172,120

Gene Lockhart

Scheme name	Share options granted	Award date	Award price	First vesting date	Last vesting date	No. of share options vested	No. of share awards exercised
CSOP2015	7,500	04/11/15	£16.00	31/10/16	31/10/20	4,500	0
CSOP2014	15,000	31/10/14	£13.50	31/10/15	31/10/19	12,000	0
CSOP2013	5,000	11/11/13	£12.00	11/11/16	11/11/18	5,000	0
CSOP2012	2,000	31/10/12	£10.00	31/10/13	31/10/15	2,000	0
CSOP2011	4,000	07/10/11	£9.00	07/10/12	07/10/14	4,000	0
Total	**33,500**					**27,500**	**0**

Michael Snyder – all of Michael's share options were vested and exercised during 2018. There are no options outstanding.

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

1. Share price on date of exercise 19 September 2018: £29.10. Gain £65,500

Executive Director proposed share option awards

The following share option awards were made in 2019 in respect of the 2018 performance year and are already included in the single figure table for 2018 variable pay on page 87. They reflect that, following our announcement regarding the RWA adjustment, the CEO asked that the Committee did not consider him for variable reward for 2018.

Vesting period	Craig Donaldson	David Arden
After one year	0	9,600[1]
After five years	0	19,200[1]
Total	**0**	**28,800**

1. These share options have been frozen pending further internal analysis and any external investigations into the RWA adjustment

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF METRO BANK PLC

Report on the audit of the financial statements

Opinion

In our opinion, Metro Bank PLC's group financial statements and parent company financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the group and parent company balance sheets as at 31 December 2018; the group statement of comprehensive income, the group and parent company cash flow statements, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

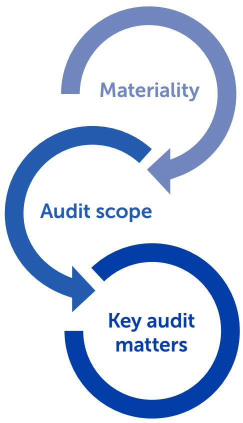
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall group materiality: £1.8m (2017: £1.9m), based on 5% of the average consolidated profit or loss before tax of the last 5 years.
- Overall parent company materiality: £1.9m (2017: £2.0m), based on 5% of the average profit or loss before tax of the last 5 years.

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of reporting units and other qualitative factors (including history of misstatement through fraud or error).

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

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

- Impairment of loans and advances to customers (Group and parent)
- Recognition of revenue on loans and advances (Group and parent)

These items were discussed with the Audit Committee as part of our audit plan communicated in September 2018 and updated in November 2018. These were the key audit matters for discussion at the conclusion of our audit.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and the industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations such as, but not limited to, the Consumer Credit Act and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management, internal audit and the group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Reading correspondence with regulators, such as the Financial Conduct Authority and the Prudential Regulation Authority in relation to the group's compliance with banking regulations;
- Challenging assumptions and judgements made by management in their estimation of the impairment of loans and advances to customers and revenue recognition (see related key audit matters below), and the recognition of the deferred tax asset relating to brought forward trading losses; and
- Identifying and testing journal entries posted by management or with unusual account combinations.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF METRO BANK PLC

CONTINUED

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers IFRS 9 was adopted on 1 January 2018 and introduced significant changes to the estimation of impairment as losses are now recognised on an expected, forward looking basis, reflecting the group's view of potential future economic events. As a result, a new methodology encompassing new assumptions and judgements was required to determine impairment provisions under IFRS 9, and there are new disclosure requirements. The assumptions and judgements of most significance included the following: • The judgements made by management in determining the probability of default ('PD') and loss given default ('LGD'); • The 'staging' thresholds selected by management to determine a significant increase in credit risk, and hence whether a 12 month or lifetime loss provision is recorded; and • The application of forward looking economic assumptions used in the models, including management's assumptions to address potential risks from the UK's exit from the European Union. (Group and parent)	We assessed and tested the design and operating effectiveness of the controls directly associated with the impairment calculation. The procedures we performed in reaching our conclusions included: • With support from our credit modelling specialists, we understood and critically assessed the methodology applied in the impairment models, to evaluate whether the methodology was compliant with IFRS 9 requirements, and tested key assumptions and judgements, including those made by management in determining PDs and LGDs, used in the calculation of provisions. • To test the application of management's 'staging' thresholds, we performed substantive procedures including selecting samples of loans and advances, forming our own judgements of stage allocation and comparing this to management's conclusions. • To test management's incorporation of forward looking information into the impairment modelling process, we compared the forward looking assumptions to publically available forecasts, including those published by the Bank of England. We assessed management's probability weights applied to the scenarios in the calculation of impairment and considered whether the scenarios and probability weights appeared to be within a reasonable range. This included assessing management's assumptions regarding the UK's exit from the European Union. • We tested the accuracy of critical data inputs used by the impairment models on a sample basis to supporting documentation. • We tested management's model monitoring controls and controls covering the identification of which loans and advances which are impaired, including re-performing a number of model monitoring tests independently. • We evaluated whether the credit risk disclosures made by management were compliant with the requirements of IFRS 9 and traced the disclosures to source data. We determined that these controls were designed, implemented and operated effectively and therefore we determined that we could place reliance on them for the purposes of our audit. Based on our procedures we found the assumptions and judgements used by management in their impairment estimate to be reasonable, and the new financial statements disclosures to be materially in line with the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter
	We evaluated the circumstances surrounding the RWA adjustment announced in January 2019, and considered the impact on our audit work. Whilst RWAs and the related adjustment do not form part of the financial statements, we made enquiries of management and the Board, and the Prudential Regulation Authority, reviewed correspondence with the Bank's regulators, as well as reading reports issued by advisers engaged to support the Bank in its review of this area. We performed additional testing in respect of the recording of loan and collateral information used for financial statement reporting purposes, to the extent that this information was relevant to management's assessment of impairment of loans and advances. We also considered whether there is any evidence from the procedures performed as to the integrity of financial statement reporting in respect of loans and advances, or the related control environment. No material issues were noted.
Recognition of revenue on loans and advances The Group recognises interest income using the effective interest rate method which spreads interest and directly attributable cash flows, the most significant of which relate to loan arrangement fees and upfront costs of new lending, over the loans' expected lives. The expected life assumptions utilise repayment profiles to represent how customers are expected to repay. The Group has limited historical experience to support these profiles and therefore management must apply judgement, in addition to any historical information available. (Group and parent)	We assessed and tested the design and operating effectiveness of the controls directly associated with the calculation and reporting of interest income on loans to customers. These controls included: • accurate input of loan data into core financial reporting systems; • appropriate authorisation of amendments to data; and • determination and approval of the assumptions used in the effective interest rate calculations. We determined that these controls were designed, implemented and operated effectively and therefore we determined that we could place reliance on them for the purposes of our audit. We assessed management's effective interest rate calculations through stressing the assumptions applied and utilising internal benchmarks to evaluate the appropriateness of the key assumptions used. We found no exceptions.

How we tailored the audit scope

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

The group is comprised of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud or error). We performed audit procedures over business components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances), using the materiality levels set out above. We also performed other audit procedures including testing information technology general controls and controls over key outsourced functions related to financial reporting, to mitigate the risk of material misstatement.

This approach gave us coverage of over 99% of the group's total assets. Audit coverage on account balances in the consolidated income statement ranges between 85% and 100%. For the remaining balances within business components which were not individually financially significant, the risk of material misstatement was mitigated through audit procedures including testing of entity level controls

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF METRO BANK PLC

CONTINUED

Materiality

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

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

	Group financial statements	Parent company financial statements
Overall materiality	£1.8m (2017: £1.9m).	£1.9m (2017: £2.0m).
How we determined it	5% of the average consolidated profit or loss before tax of the last 5 years.	5% of the average profit or loss before tax of the last 5 years.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the company, and is a generally accepted auditing benchmark.

For our group audit, we identified one financially significant component, which is the parent company. We allocated a materiality of £1.7m to the parent company, which is less than our overall group materiality. As the allocated materiality for the parent company is below the statutory materiality, we have audited the parent company using this lower component materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £91,000 (group audit) (2017: £92,000) and £93,000 (parent company audit) (2017: £99,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group and parent company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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

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

- The directors' confirmation on page 59 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 43 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules).

Other Code Provisions

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

- The statement given by the directors, on page 60, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 71 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF METRO BANK PLC

CONTINUED

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 60, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 July 2009 to audit the financial statements for the period ended 31 December 2010 and subsequent financial periods. During 2018 the directors carried out an audit tender and we were subsequently invited to continue to perform the audit of the financial statements, pending formal reappointment at the 2019 Annual General Meeting. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2010 to 31 December 2018.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 April 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £'million	Year ended 31 December 2017 £'million
Interest income	2	444.4	302.0
Interest expense	2	(114.3)	(61.0)
Net interest income		330.1	241.0
Fee and commission income	3	37.6	29.7
Net gains on sale of assets		10.7	3.7
Other income	4	25.7	19.4
Total income		404.1	293.8
General operating expenses	5	(305.6)	(232.9)
Depreciation and amortisation	12,13	(45.1)	(33.4)
Impairment of property, plant and equipment and intangible assets	12,13	(4.8)	(0.6)
Total operating expenses		(355.5)	(266.9)
Credit impairment charges[1]	23	n/a	(8.2)
Expected credit loss expense[1]		(8.0)	n/a
Profit before tax[2]		40.6	18.7
Taxation	8	(13.5)	(7.9)
Profit for the year		27.1	10.8
Other comprehensive expense for the year			
Items which will be reclassified subsequently to profit or loss:			
Movements in respect of investment securities held at available-for-sale (net of tax):			
– changes in fair value		n/a	2.7
– fair value changes transferred to the income statement on disposal		n/a	(3.7)
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax):			
– changes in fair value		(2.4)	n/a
– fair value changes transferred to the income statement on disposal		(1.5)	n/a
Total other comprehensive expense		(3.9)	(1.0)
Total comprehensive profit for the year		23.2	9.8
Earnings per share			
Basic (pence)	30	29.1	12.8
Diluted (pence)	30	28.2	12.6

1. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. Under IAS 39, credit impairment charges were recognised on loans and advances to customers when there was objective evidence of impairment. Losses which may have arisen from future events were not recognised. Charges were recognised in the income statement under line item "Credit impairment charges". Under IFRS 9, we recognise expected credit losses ('ECL') on all financial assets. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL. Charges are recognised in the income statement under line item "Expected credit loss expense". Further details about our transition to IFRS 9 can be found in note 1.4.
2. A reconciliation between our statutory profit before tax of £40.6 million and our underlying profit before tax of £50.0 million can be found on page 165.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	31 December 2018 £'million	31 December 2017 £'million
Assets			
Cash and balances with the Bank of England		**2,286**	2,112
Loans and advances to banks		**186**	100
Loans and advances to customers	10	**14,235**	9,620
Available-for-sale investment securities[1]	11	**n/a**	361
Held to maturity investment securities[1]	11	**n/a**	3,554
Investment securities held at fair value through other comprehensive income ('FVOCI')[1]	11	**674**	n/a
Investment securities held at amortised cost[1]	11	**3,458**	n/a
Property, plant and equipment	12	**454**	328
Intangible assets	13	**197**	148
Prepayments and accrued income	14	**66**	52
Deferred tax asset	8	**41**	54
Other assets	15	**50**	26
Total assets		**21,647**	16,355
Liabilities			
Deposits from customers	16	**15,661**	11,669
Deposits from central banks[2]		**3,801**	3,321
Debt securities	17	**249**	–
Repurchase agreements		**344**	121
Other liabilities	18	**189**	147
Total liabilities		**20,244**	15,258
Equity			
Called-up share capital	19	**–**	–
Share premium	19	**1,605**	1,304
Retained earnings	21	**(209)**	(219)
Other reserves		**7**	12
Total equity		**1,403**	1,097
Total equity and liabilities		**21,647**	16,355

1. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. As part of the transition our investment securities are classified as held at amortised cost and as FVOCI, rather than under the previous categories of available-for-sale and held to maturity. Further details about our transisition to IFRS 9 can be found in note 1.4.
2. Deposits from central banks comprises solely of amounts drawn down under the Bank of England's Term Funding Scheme ('TFS').

The accounting policies, notes and information on pages 112 to 159 form part of the financial statements.

The financial statements on pages 105 to 159 were approved by the Board of Directors on 10 April 2019 and signed on its behalf by:

Vernon W. Hill, II
Chairman

Craig Donaldson
Chief Executive Officer

David Arden
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Called-up share capital £'million	Share premium £'million	Retained earnings £'million	Available-for-sale reserve £'million[1]	FVOCI reserve £'million[1]	Share option reserve £'million	Total equity £'million
Balance as at 31 December 2017		–	1,304	(219)	(4)	n/a	16	1,097
IFRS 9 transition adjustment (net of tax)	1.4	–	–	(17)	4	1	–	(12)
Balance as at 1 January 2018		–	1,304	(236)	–	1	16	1,085
Net profit for the year		–	–	27	n/a	–	–	27
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income		–	–	–	n/a	(4)	–	(4)
Total comprehensive income		–	–	27	n/a	(4)	–	23
Shares issued		–	304	–	n/a	–	–	304
Cost of shares issued		–	(3)	–	n/a	–	–	(3)
Net share option movements		–	–	–	n/a	–	(6)	(6)
Balance as at 31 December 2018		–	1,605	(209)	n/a	(3)	10	1,403
Balance as at 1 January 2017		–	1,028	(230)	(3)	n/a	10	805
Net profit for the year		–	–	11	–	n/a	–	11
Other comprehensive income (net of tax) relating to available-for-sale investments		–	–	–	(1)	n/a	–	(1)
Total comprehensive income		–	–	11	(1)	n/a	–	10
Shares issued		–	279	–	–	n/a	–	279
Cost of shares issued		–	(3)	–	–	n/a	–	(3)
Net share option movements		–	–	–	–	n/a	6	6
Balance as at 31 December 2017		–	1,304	(219)	(4)	n/a	16	1,097
Notes		19	19	21				

1. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. Upon adoption of IFRS 9 the available for sale reserve was replaced by the fair value through other comprehensive income ('FVOCI') reserve in accordance with the new requirements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £'million	Year ended 31 December 2017 £'million
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax		41	19
Adjustments for:			
Impairment and write-offs of property, plant and equipment and intangible assets		5	1
Depreciation and amortisation	12, 13	45	33
Share option charge		5	3
Gain on sale of assets and fair value gains on derivatives		(11)	(4)
Accrued interest on and amortisation of investment securities		(7)	(2)
Changes in operating assets		(4,651)	(3,751)
Changes in operating liabilities		4,726	5,994
Net cash inflows from operating activities		153	2,293
Cash flows from investing activities			
Sales of investment securities		1,522	309
Purchase of investment securities		(1,740)	(997)
Purchase of property, plant and equipment	12	(150)	(99)
Purchase and development of intangible assets	13	(75)	(70)
Net cash outflows from investing activities		(443)	(857)
Cash flows from financing activities			
Shares issued	19	304	279
Cost of shares issued	19	(3)	(3)
Debt securities issued	17	250	–
Cost of debt security issued	17	(1)	–
Net cash inflows from financing activities		550	276
Net increase in cash and cash equivalents		260	1,712
Cash and cash equivalents at start of year		2,212	500
Cash and cash equivalents at end of year		2,472	2,212
Profit before tax includes:			
Interest received		437	296
Interest paid		105	61
Cash and cash equivalents comprise:			
Cash and balances with the Bank of England		2,286	2,112
Loans and advances to banks		186	100
		2,472	2,212

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	31 December 2018 £'million	31 December 2017 £'million
Assets			
Cash and balances with the Bank of England		2,286	2,112
Loans and advances to banks		160	94
Loans and advances to customers	10	13,940	9,393
Available-for-sale investment securities[1]	11	n/a	361
Held to maturity investment securities[1]	11	n/a	3,554
Investment securities held at fair value through other comprehensive income ('FVOCI')[1]	11	674	n/a
Investment securities held at amortised cost[1]	11	3,458	n/a
Property, plant and equipment		454	328
Investment in subsidiaries		15	15
Intangible assets	13	190	141
Prepayments and accrued income	14	63	50
Deferred tax asset		40	54
Other assets	15	355	240
Total assets		21,635	16,342
Liabilities			
Deposits from customers	16	15,661	11,669
Deposits from central banks[2]		3,801	3,321
Debt securities	17	249	–
Repurchase agreements		344	121
Other liabilities	18	182	142
Total liabilities		20,237	15,253
Equity			
Called-up share capital	19	–	–
Share premium	19	1,605	1,304
Retained earnings[3]	21	(214)	(227)
Other reserves		7	12
Total equity		1,398	1,089
Total equity and liabilities		21,635	16,342

1. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. As part of the transition our investment securities are classified as held at amortised cost and as FVOCI, rather than under the previous categories of available-for-sale and held to maturity. Further details about our transition to IFRS 9 can be found in note 1.4.
2. Deposits from central banks comprises solely of amounts drawn down under the Bank of England's Term Funding Scheme ('TFS').
3. The Company profit for the year was £29.0million (2017: £8.9 million).

The financial statements on pages 105 to 159 were approved by the Board of Directors on 10 April 2019 and signed on its behalf by:

Vernon W. Hill, II
Chairman

Craig Donaldson
Chief Executive Officer

David Arden
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Called-up share capital £'million	Share premium £'million	Retained earnings £'million	Available-for-sale reserve £'million	FVOCI reserve £'million[1]	Share option reserve £'million	Total equity £'million
Balance as at 31 December 2017		–	1,304	(227)	(4)	n/a	16	1,089
IFRS 9 transition adjustment (net of tax)	1.4	–	–	(14)	4	1	–	(9)
Balance as at 1 January 2018		–	1,304	(241)	–	1	16	1,080
Net profit for the year		–	–	27	n/a	–	–	27
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income		–	–	–	n/a	(4)	–	(4)
Total comprehensive income		–	–	27	n/a	(4)	–	23
Share issue		–	304	–	n/a	–	–	304
Cost of share issue		–	(3)	–	n/a	–	–	(3)
Net share option movements		–	–	–	n/a	–	(6)	(6)
Balance as at 31 December 2018		–	1,605	(214)	n/a	(3)	10	1,398
Balance as at 1 January 2017		–	1,028	(236)	(3)	n/a	10	799
Net profit for the year		–	–	9	–	n/a	–	9
Other comprehensive income (net of tax) relating to available-for-sale investments		–	–	–	(1)	n/a	–	(1)
Total comprehensive income		–	–	9	(1)	n/a	–	8
Share issue		–	279	–	–	n/a	–	279
Cost of share issue		–	(3)	–	–	n/a	–	(3)
Net share option movements		–	–	–	–	n/a	6	6
Balance as at 31 December 2017		–	1,304	(227)	(4)	n/a	16	1,089
Notes		19	19	21				

1. On 1 January 2018 we adopted IFRS 9 which replaced IAS 39. Upon adoption of IFRS 9 the available for sale reserve was replaced by the fair value through other comprehensive income ('FVOCI') reserve in accordance with the new requirements.

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Year ended 31 December 2018 £'million	Year ended 31 December 2017 £'million
Reconciliation of profit before tax to net cash flows from operating activities:			
Profit before tax		40	16
Adjustments for:			
Impairment and write-offs of property, plant and equipment and intangible assets		5	–
Depreciation and amortisation		45	34
Share option charge		4	4
Gain on sale of assets and fair value gains on derivatives		(8)	(4)
Accrued interest on and amortisation of investment securities		(7)	(2)
Changes in operating assets		(4,675)	(3,753)
Changes in operating liabilities		4,724	5,993
Net cash inflows from operating activities		128	2,288
Cash flows from investing activities			
Sales of investment securities		1,526	309
Purchase of investment securities		(1,740)	(997)
Purchase of property, plant and equipment		(150)	(100)
Proceeds from sale of property, plant and equipment		–	–
Purchase and development of intangible assets	13	(75)	(69)
Net cash outflows from investing activities		(439)	(857)
Cash flows from financing activities			
Share issue	19	304	279
Cost of share issue	19	(3)	(3)
Share issue	17	250	–
Cost of share issue	17	(1)	–
Net cash inflows from financing activities		550	276
Net increase in cash and cash equivalents		239	1,707
Cash and cash equivalents at start of year		2,207	499
Cash and cash equivalents at end of year		2,446	2,206
Profit before tax includes:			
Interest received		425	286
Interest paid		105	61
Cash and cash equivalents comprise:			
Cash and balances with the Bank of England		2,286	2,112
Loans and advances to banks		160	94
		2,446	2,206

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and significant accounting policies

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

1.1 General information

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

1.2 Basis of preparation

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

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

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

1.3 Cash flow statement

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

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

The cash flows from operating activities are determined by using the indirect method. Under that method, profit before tax is adjusted for non-cash items, changes in other assets and liabilities and other items that relate to investing and financing cash flows, to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method, that is by directly reporting the cash effects of transactions.

1.4 Changes in accounting policy and disclosures

During the year we adopted the following standards across all Group companies:

IFRS 9 'Financial Instruments'

On 1 January 2018 we adopted IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement'. This resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated; accordingly, all comparative period information is presented in accordance with our previous accounting policies.

Reconciliation of balance sheet balances from IAS 39 to IFRS 9

The following tables reconcile the carrying amount of financial assets and liabilities, from their previous measurement category in accordance with IAS 39 as at 31 December 2017 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

1. Basis of preparation and significant accounting policies continued

Class of financial asset or liability	IAS 39 Measurement category	IAS 39 Carrying amount £'million	IFRS 9 Measurement category	IFRS 9 Carrying amount £'million
Financial assets				
Cash and balances with central banks	Loans and receivables	£2,112	Amortised cost	£2,112
Loans and advances to banks	Loans and receivables	£100	Amortised cost	£100
Loans and advances to customers	Loans and receivables	£9,620	Amortised cost	£9,598
Investment securities	Held to maturity	£3,554	Amortised cost	£3,224
	Available for sale	£361	FVOCI	£698
Financial liabilities				
Deposits from customers	Financial liabilities at amortised cost	£11,669	Amortised cost	£11,669
Deposits from banks	Financial liabilities at amortised cost	£3,321	Amortised cost	£3,321

Financial assets measured at amortised cost under IFRS 9

£'million	Cash and balances with central banks (IAS 39: Loans and receivables)	Loans and advances to banks (IAS 39: Loans and receivables)	Loans and advances to customers (IAS 39: Loans and receivables)	Investment securities (IAS 39: Held to maturity)	Total
Carrying value under IAS 39	2,112	100	9,620	3,554	15,386
Transfer to FVOCI					
– Carrying amount transferred	–	–	–	(332)	(332)
Remeasurement of investment securities held at amortised cost	–	–	–	2	2
Remeasurement of impairment allowance	–	–	(22)	–	(22)
Carrying value under IFRS 9 – amortised cost	2,112	100	9,598	3,224	15,034

Remeasurement of investment securities held at amortised cost – this relates to assets which were initially classified as available for sale under IAS 39. They were subsequently transferred to the held to maturity category, with the carrying value at the point of transfer being equal to the fair value. This adjustment restates the carrying value of these assets to reflect the appropriate amortised cost as if the assets had always been measured at amortised cost.

The total amount of remeasurement of £20 million was adjusted through opening equity on 1 January 2018. A corresponding increase in deferred tax assets of approximately £5 million was also adjusted through opening equity on 1 January 2018.

Financial assets measured at FVOCI under IFRS 9

£'million	Investment securities (IAS39: Available for sale)	Total
Carrying value under IAS 39	361	361
Transfer from amortised cost		
– Carrying amount transferred	332	332
– Remeasurement from amortised cost to fair value	5	5
Remeasurement of impairment allowance	–	–
Carrying value under IFRS 9 – FVOCI	698	698

£332 million fixed rate securities classified as held to maturity under IAS 39 have been classified as FVOCI under IFRS 9. Going forward, this pool of assets will be held to collect cash flows and to sell if required in order to effectively manage our interest rate risk, therefore it has been classified as FVOCI. Had IAS 39 remained in force, we would have maintained our intention and ability to hold these assets to maturity, and we would have sought other methods to manage our interest rate risk.

The total amount of remeasurement of £5 million was adjusted through opening equity on 1 January 2018. A corresponding decrease in deferred tax assets of approximately £1 million was also adjusted through change to equity on 1 January 2018.

1. Basis of preparation and significant accounting policies continued

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the previous impairment allowance measured in accordance with the IAS 39 incurred loss model and the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category (IAS 39/IFRS 9)	Loan loss allowance under IAS 39 £'million	Reclassification £'million	Remeasurement £'million	Loan loss allowance under IFRS 9 £'million
Loans and receivables/Financial assets at amortised cost	15	–	22	37
Available-for-sale financial instruments/Financial assets at FVOCI	–	–	–	–
Total	15	–	22	37

The increase in loss allowance under IFRS 9 when compared to that measured under IAS 39 is primarily due to earlier recognition of credit losses under the new expected loss model. The most significant impact has been observed in relation to our unsecured lending portfolios. For a number of these portfolios, no new lending is being originated.

The European Banking Authority has amended the Capital Requirements Regulation to establish IFRS 9 related transitional arrangements. On adoption of IFRS 9, movements in the opening impairment provision were posted as an adjustment to reserves, and therefore to capital. The transitional arrangement enables firms to 'add back' a portion of this capital adjustment in early years, thereby reducing the initial impact on capital. Add-back adjustments are also allowable for movements in provisions in subsequent years. We have elected to adopt the transitional arrangements.

Hedge accounting

IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. Hedge accounting is not currently material for us and we have elected to continue applying the requirements of IAS 39.

IFRS 15 'Revenue from Contracts with Customers'

From 1 January 2018, we adopted IFRS 15 'Revenue from Contracts with Customers' applying the modified retrospective method. The majority of our revenue is net interest income which is accounted for under IFRS 9, as such there are no material changes to the timing of revenue recognition which have arisen from the adoption of IFRS 15.

1.5 Future accounting developments

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

IFRS 16 'Leases'

On 1 January 2019 we adopted IFRS 16 'Leases'. IFRS 16 provides guidance on the classification, recognition and measurement of leases to help provide useful information to the users of financial statements. IFRS 16 replaces IAS 17 'Leases'. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use ('RoU') assets and lease liabilities for all applicable leases, with operating leases being brought onto the face of the balance sheet.

We have adopted IFRS 16 on the modified retrospective basis and as such there will be no restatement of comparators within the 2019 Annual Report & Accounts, which will continue to be presented under IAS 17.

On adoption of the standard on 1 January 2019, we recognised lease liabilities for operating leases of £328 million. We elected the transitional option to set the RoU asset equal to the related lease liability (adjusted for current amounts accrued in respect of rent free periods) for all leases as at 1 January 2019 and therefore there is no opening adjustment to retained earnings. The total amount of RoU asset recognised on 1 January was £313 million. The weighted average incremental borrowing rate used to measure lease liabilities is 5.5%.

We have applied the available practical expedients of exempting leases with a short life (less than 12 months) or low value (less than £5,000). These leases will continue to be recognised on a straight line basis over the lease term and in total are immaterial to the bank. As a result, the key leases to which the full requirements of IFRS 16 have been applied are our leases of store and head office sites.

For all stores, the lease liability represents the present value of future lease payments for the full lease term, irrespective of any tenant break clauses. For office space, where it is certain we will exercise a break the lease liability has only been calculated up to such date. The key judgement used in the lease liability calculation is the choice of discount rate, which has been set at our incremental cost of borrowing.

1. Basis of preparation and significant accounting policies continued

Due to the relatively young age of the Group coupled with our store opening profile over recent years, the majority of our leases remain in the first half of their terms, with an average remaining lease length of 20 years. Our business model will also see us continue to open stores in the years ahead, leading to an expanding lease portfolio. These two factors will lead to significantly higher charges recognised in the income statement in the near term when compared to IAS 17, reflecting a different profile of cost recognition under each standard. Charges under IFRS 16 are front loaded in the earlier years of a lease; IAS 17 requires lease expenses to be recognised on a straight line basis.

Our net interest margin ('NIM') will be reduced by the adoption of IFRS 16 since the rental expense (part of operating expenses) under IAS 17 will be replaced by a depreciation and interest expense charge. This interest expense will be recognized within NIM, thus reducing it going forward. Customer NIM + fees considers the margin derived from customer deposits and lending only, and therefore is not impacted by the adoption of IFRS 16.

The undiscounted value of our lease commitments can be found in note 22. The table below reconciles this to the opening lease liability we will recognise under IFRS 16.

	£'million
Total undiscounted lease commitments at 31 December 2018 (See note 22)	659
Exclusion of VAT from lease liability	(116)
Discounting at a weighted average rate of 5.5%	(215)
Lease liability to be included in the statement of financial position at 1 January 2019	328

Other standards

No other standards which are currently not yet effective, including IFRS 17 'insurance contracts' are deemed to have a significant impact on our financial statements.

1.6 Segmental reporting

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

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

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

1.7 Foreign currency translation

(a) Functional and presentation currency

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

The financial statements are presented in pounds Sterling, which is our presentation currency.

(b) Transactions and balances

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

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

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1. Basis of preparation and significant accounting policies continued

1.8 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires us to make judgements and estimates which although based on our best assessment, by definition will seldom equal the actual results. Management believes that the underlying assumptions applied at 31 December 2018 are appropriate and that these financial statements therefore present the financial position and results of the Group fairly. The areas involving a higher degree of complexity, or areas where estimates have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below.

Measurement of the expected credit loss allowance

The recognition and measurement of expected credit losses ('ECL') is complex and involves the use of significant estimation and judgements. We consider that the key judgement assumption for us relates to the determination of whether a "significant increase in credit risk" has occurred. We consider that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of IFRS 9.

Significant increase in credit risk (critical accounting judgement)

As described in more detail in note 23, IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach. Financial assets that have had no significant increase in credit risk since initial recognition or that have low credit risk at the reporting date are considered to be performing loans and are classified as "Stage 1". Losses are calculated based on our expectation of losses expected on defaults which may occur within the next 12 months. Assets which are considered to have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment, are classified as "Stage 2". Losses are calculated based on defaults which may occur at any point in the asset's lifetime.

Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to stage 2, is performed at each reporting period by considering the change in the probability of default ('PD') occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. We assess whether PD has increased using qualitative and quantitative measures, as described in note 23.

Multiple forward-looking economic scenarios (critical accounting estimate)

As described in note 23, the ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. At 31 December 2018, three main scenarios were applied ("Baseline", "Upside" and "Downside"), plus a specific "Hard Brexit" scenario incorporating the high degree of uncertainty in estimating the current uncertainty in the UK economy ahead of the UK's departure from the European Union in 2019.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied:

- UK interest rates
- UK unemployment rates
- UK house price index ('HPI') changes, year on year
- UK gross domestic product ('GDP') changes, year on year

The weightings applied to each scenario at 31 December 2018 are:

- Baseline - 37%
- Upside and downside - 28% each
- Hard Brexit - 7%

The weighted ECL is higher than the baseline scenario, reflecting the impact of the downside and Hard Brexit scenarios, offset by the impact of the upside scenario. Further details on how the assumptions and scenario weightings have been determined can be found in note 23.

1. Basis of preparation and significant accounting policies continued

The weightings applied to each scenario are considered to represent a significant accounting estimate. We have performed an assessment of the impact on the ECL if each of the Baseline, Upside, Downside and Hard Brexit scenarios were applied to the ECL calculation using a 100% weighting (that is, ignoring all other scenarios in each case):

Scenario	ECL (£'million)	Variance to reported weighted ECL at 31 December 2018
Weighted	33.8	–
Baseline	31.6	(7%)
Upside	26.5	(22%)
Downside	40.4	19%
Hard Brexit	49.4	46%

We note that the sensitivities disclosed above represent example scenarios and may not represent actual scenarios which occur in the future. If one of these scenarios did arise then at that time the ECL would not equal the amount disclosed above, as the amounts disclosed do not take account of the alternative possible scenarios which would be considered at that time. We also note that the sensitivities disclosed above do not take into account movements in impairment stage allocations that would result under the different scenarios

2. Net interest income

Accounting policy

We recognise interest income and expense for all interest-bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses except for purchased or originated credit impaired assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For loans that are credit impaired interest income is calculated on the carrying amount of the loan net of credit impairment.

Interest income

Group	2018 £'million	2017 £'million
Cash and balances held with the Bank of England	11.2	3.3
Loans and advances to customers	365.2	241.8
Investment securities held to maturity and available for sale	n/a	56.9
Investment securities held at amortised cost	57.7	n/a
Investment securities held at FVOCI	10.3	n/a
Total interest income	**444.4**	302.0

Interest expense

Group	2018 £'million	2017 £'million
Deposits from customers	75.1	46.9
Deposits from central banks	22.7	5.4
Debt securities	7.2	–
Repurchase agreements	0.7	1.6
Other	8.6	7.1
Total interest expense	**114.3**	61.0

3. Fee and commission income

Accounting policy

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

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

As disclosed in note 1.6, we provide services solely within the UK and therefore revenues are not presented on a geographic basis. Revenue is grouped solely by contract-type as we believe this best depicts how the nature, amount and timing of our revenue and cash flows are affected by economic factors.

Group	2018 £'million	2017 £'million
Service charges and other fee income	23.2	17.9
Safe deposit box income	11.1	9.1
ATM and interchange fees	3.3	2.7
Total fee and commission income	37.6	29.7

4. Other income

Accounting policy

Other income is accounted for as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
Gains on foreign currency transactions	Gains on foreign currency transactions is the spread earned on foreign currency transactions performed for our customers along with any associated fees. It is recognised at the point in time that the exchange is executed.
Rental income	Rental income is primarily earned from the letting out of surplus space in some of our properties. The revenue is recognised on a straight line basis over the life of the lease. Further details of future amounts due can be found in note 22.

Group	2018 £'million	2017 £'million
Foreign currency transactions	22.5	17.4
Rental income	1.4	1.4
Other	1.8	0.5
Total other income	25.7	19.4

5. General operating expenses

Group	2018 £'million	2017 £'million
People costs	**154.9**	123.8
Occupancy expense	**39.4**	30.9
Information technology costs	**26.8**	19.9
Marketing costs	**5.9**	3.7
Legal, regulatory and professional fees	**9.1**	7.0
Money transmission and other banking related costs	**19.6**	14.3
Costs relating to the RBS alternative remedies package application	**3.8**	0.1
Other	**46.1**	33.1
Total general operating expenses	**305.6**	232.9

Included within legal, regulatory and professional fees is £0.4 million (2017: £0.6 million) in respect of the Financial Services Compensation Scheme ('FSCS') levy.

6. People costs

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

Group	2018 £'million	2017 £'million
Wages and salaries	**128.0**	102.0
Social security costs	**13.7**	10.7
Pension costs	**8.5**	6.5
Equity-settled share-based payments[1]	**4.7**	4.6
Total people costs	**154.9**	123.8

1. Included within equity-settled share based payments is £0.8 million (2017: £1.4 million) in respect of share awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. These share awards vest annually until April 2021.

The average monthly number of persons employed during the year was 3,552 (2017: 2,831).

Group	2018	2017
Customer-facing	**2,107**	1,774
Non-customer-facing	**1,445**	1,057
Total number of persons employed	**3,552**	2,831

Pension costs

Payments were made amounting to £9.1 million (2017: £7.1 million) to employees' individual personal pension plans during the year.

7. Fees payable to the Group's auditor

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

Group	2018 £'000	2017 £'000
For Metro Bank's statutory audit	**968**	1,175
For the statutory audit of Metro Bank's subsidiaries	**49**	37
For all other services	**123**	79
Total fees payable to the Group's auditors	**1,140**	1,291

8. Taxation

Accounting policy

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

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

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

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

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

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

Tax expense
The components of the tax expense for the year are:

Group	2018 £'million	2017 £'million
Current tax		
Current tax	(2.8)	(1.0)
Adjustment in respect of prior years	(0.7)	0.1
Total current tax expense	(3.5)	(0.9)
Deferred tax		
Origination and reversal of temporary differences	(9.8)	(5.2)
Effect of changes in tax rates	(0.7)	(3.0)
Adjustment in respect of prior years	0.5	1.2
Total deferred tax expense	(10.0)	(7.0)
Total tax expense	(13.5)	(7.9)

Reconciliation of the total tax expense
The tax expense shown in the income statement differs from the tax expense that would apply if all accounting profits had been taxed at the UK corporation tax rate.

8. Taxation continued

A reconciliation between the tax expense and the accounting profit multiplied by the UK corporation tax rate is as follows:

Group	2018 £'million	Effective tax rate %	2017 £'million	Effective tax rate %
Accounting profit before tax	40.6		18.7	
Tax expense at statutory tax rate of 19% (2017: 19.25%)	(7.7)	19.0%	(3.6)	19.25%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	(2.6)	6.4%	(2.6)	14.10%
Non-deductible expenses - investment property impairment	(0.5)	1.2%	–	–
Non-deductible expenses – other	(0.6)	1.4%	(0.5)	2.90%
Share-based payments	(1.3)	3.1%	0.6	(3.40%)
Adjustment in respect of prior years	(0.2)	0.5%	1.2	(6.50%)
Effect of changes in tax rates	(0.6)	1.5%	(3.0)	15.90%
Tax expense reported in the consolidated income statement	(13.5)	33.2%	(7.9)	42.20%

Share based payments

During the year the Metro Bank share price fell from £35.84 to £16.93. This had the impact of significantly reducing the deferred tax asset held for share options and in turn resulted in an associated deferred tax charge of £1.3 million. This charge contributes 3.1% to the 2018 effective tax rate.

Effective tax rate

The effective tax rate for the year is 33.2% (2017: 42.2%).

The effective tax rate for the year excluding the effect of changes in tax rates and prior year adjustments is 31.2% (2017: 32.8%). Further excluding the impact of the deferred tax charge relating to the fall in the share price and the investment property impairments the effective tax rate for the year is 26.9% (2017: 32.8%)

Deferred tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted. Due to the investment property impairment being unrealised there is an unrecognised DTA of £0.5m. The following table shows deferred tax recorded in the balance sheet and changes recorded in the tax expense:

Group	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
2018						
Deferred tax assets	53	7	1	–	–	61
Deferred tax liabilities	–	(2)	–	(11)	(7)	(20)
Deferred tax assets (net)	53	5	1	(11)	(7)	41
At 31 December 2017	57	–	11	(8)	(6)	54
IFRS 9 transition adjustments	–	4	–	–	–	4
At 1 January 2018	57	4	11	(8)	(6)	58
Income statement	(4)	(1)	(1)	(3)	(1)	(10)
Other comprehensive income	–	2	–	–	–	2
Equity	–	–	(9)	–	–	(9)
At 31 December 2018	53	5	1	(11)	(7)	41

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

8. Taxation continued

Group	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
2017						
Deferred tax assets	57	1	11	–	–	69
Deferred tax liabilities	–	(1)	–	(8)	(6)	(15)
Deferred tax assets (net)	57	–	11	(8)	(6)	54
At 1 January 2017	61	(2)	6	(5)	(5)	55
Income statement	(3)	–	1	(3)	(1)	(6)
Other comprehensive income	(1)	2	–	–	–	1
Equity	–	–	4	–	–	4
At 31 December 2017	57	–	11	(8)	(6)	54

9. Financial instruments

Accounting policy

Financial assets

We account for our financial assets under three measurement categories, as defined by IFRS 9:

- Measured at amortised cost
- Measured at fair value through other comprehensive income ('FVOCI')
- Measured at fair value through profit or loss ('FVPL')

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured:

(a) **Business model:** how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include, for example, past experience on how the cash flows for these assets were collected, how their performance is assessed, how related risks are managed and how their managers are compensated; and

(b) **SPPI test:** whether contractual cash flows are consistent with a basic lending arrangement; that is whether cash flows solely comprise payments of principal and interest ('SPPI'). Examples of contract terms which may cause a financial asset not to "pass" the SPPI test include: interest being linked to the share price of the issuer, or some other index, rather than reflecting the time value of money; timing differences on interest reset points, such as an interest rate which resets monthly to a three month LIBOR rate; or a bond that is convertible into equity.

If assets pass the SPPI test, and are within a business model that holds to collect contractual cash flows, they are measured at amortised cost. If assets pass the SPPI test, and are within a business model that holds to collect contractual cash flows and for sale, they are measured at FVOCI. If an asset does not meet the criteria for amortised cost or FVOCI, it is measured at FVPL.

Under IFRS 9, assets will only move between categories if there is a significant change to the business model within which they are held; this is expected to be infrequent.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

Financial liabilities

All financial liabilities are classified and subsequently measured at amortised cost, except for those designated at fair value through profit or loss at initial recognition. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

2017 comparative data

2017 comparative data is disclosed under IAS 39. The specific policies applied to loans and advances to customers and investment securities are described in note 10 and 11. There are no significant differences relating to the classification and measurement of our financial liabilities.

9. Financial instruments continued

Our financial instruments primarily comprise customer deposits, loans and advances to customers, cash held at banks and investment securities, all of which arise as a result of our normal operations. Information on loans and advances to customers can be found in note 10, and on investment securities in note 11.

We do not enter into transactions for speculative purposes and there are no instruments held for trading. From time to time, we may use interest rate derivatives such as swaps to manage part of our interest rate risk.

The main financial risks arising from our financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk). Further details on these risks can be found in notes 23 to 25.

The financial instruments we hold are simple in nature and we do not consider that we have made any significant or material judgments relating to the classification of financial instruments under IFRS 9.

10. Loans and advances to customers

Accounting policy

Loans and advances to customers are classified as held at amortised cost. All customer lending is held to collect cash flows, with no sales expected in the normal course of business. We aim to offer products with simple terms to customers, and as a result, all loans comprise solely payments of principal and interest. Loans are initially recognised when cash is advanced to the borrower at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method, which is detailed further in note 2. Interest on loans is included in the income statement and is reported as 'Interest income'. Expected credit losses ('ECL') are reported as a deduction from the carrying value of the loan. Changes to the ECL during the year are recognised in the income statement as "Expected credit loss expense".

2017 comparative data is disclosed under IAS 39; instead of an ECL an allowance for impairment is held. The allowance for impairment represents the cumulative credit impairment losses recognised and are reported as a deduction from the carrying value of the loan. Credit impairment losses recognised during the year are shown as in the income statement as 'Credit impairment charges'.

	31 December 2018		
	Gross carrying amount £'million	ECL allowance[1] £'million	Net carrying amount £'million
Consumer lending	288	(9)	279
Retail mortgages	9,625	(11)	9,614
Commercial lending (excluding asset and invoice finance)	4,057	(10)	4,047
Total loans and advances to customers (Company)	**13,970**	**(30)**	**13,940**
Asset and invoice finance	299	(4)	295
Total loans and advances to customers (Group)	**14,269**	**(34)**	**14,235**

	31 December 2017		
	Gross carrying amount £'million	Allowance for impairment[1] £'million	Net carrying amount £'million
Consumer lending	217	(6)	211
Retail mortgages	6,231	(3)	6,228
Commercial lending (excluding asset and invoice finance)	2,957	(3)	2,954
Total loans and advances to customers (Company)	9,405	(12)	9,393
Asset and invoice finance	229	(2)	227
Total loans and advances to customers (Group)	9,634	(14)	9,620

1. On 1 January 2018 we adopted IFRS 9. Under IFRS 9 we assess impairment on a forward-looking ECL basis, compared to on an incurred loss basis under IAS 39. Further details of the transition from IAS 39 to IFRS 9 can be found in note 1.4.

10. Loans and advances to customers continued

Further information on the movements in gross carrying amounts and ECL can be found in note 23. An analysis of the gross loans and advances by product category is set out below:

	Group 31 December 2018 £'million	Group 31 December 2017 £'million	Company 31 December 2018 £'million	Company 31 December 2017 £'million
Overdrafts	70	86	70	86
Credit cards	11	9	11	9
Term loans	207	122	207	122
Total consumer lending	**288**	217	**288**	217
Retail mortgages	**9,625**	6,231	**9,625**	6,231
Total retail lending	**9,913**	6,448	**9,913**	6,448
Overdrafts	226	139	226	139
Credit cards	3	2	3	2
Term loans	3,828	2,816	3,828	2,816
Asset and invoice finance	299	229	–	–
Total commercial lending	**4,356**	3,186	**4,057**	2,957
Gross loans and advances to customers	**14,269**	9,634	**13,970**	9,405
Amounts include:				
Repayable at short notice	**251**	160	**251**	160

11. Investment securities

Accounting policy

Our investment securities may be categorised as amortised cost, FVOCI or FVPL. Currently all investment securities are non-complex, with cash flows comprising solely payments of principal and interest. We hold some securities to collect cash flows; other securities are held to collect cash flows, and to sell if the need arises (e.g., to manage and meet day to day liquidity needs). Therefore, we have a mixed business model and securities are classified as either amortised cost or FVOCI as appropriate. We do not categorise any investment securities as FVPL.

Investment securities held at amortised cost

Investment securities held at amortised cost consist entirely of debt instruments. They are accounted for using the effective interest method, less any impairment losses.

Investment securities held at FVOCI

Investment securities held at FVOCI consist entirely of debt instruments. Investment securities held at FVOCI are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the investment security is derecognised. Interest is calculated using the effective interest method.

2017 comparative data

2017 comparative data is disclosed under IAS 39. At 31 December 2017, under IAS 39, investment securities were classified as held to maturity or available for sale.

Investment securities held to maturity

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

Available-for-sale investment securities

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

Investment securities held at fair value through other comprehensive income (FVOCI)

Group and Company	Level 1 £'million	Level 2 £'million	Total £'million
At 31 December 2018 (financial instruments held at FVOCI)	607	67	674
At 31 December 2017 (available for sale financial instruments)	290	71	361

The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The two levels of the fair value hierarchy relevant to the Group and Company are defined below.

Quoted market prices – Level 1

Investment securities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

11. Investment securities continued

Valuation technique using observable inputs – Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

Investment securities held at amortised cost

At 31 December 2018, financial investments classified at amortised cost (31 December 2017: held to maturity) were as follows:

Group and Company	Carrying amount £'million	Fair value £'million
At 31 December 2018 (held at amortised cost)	3,458	3,429
At 31 December 2017 (held to maturity)	3,554	3,590

Reclassifications between categories

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

	Carrying amount £'million	Fair value £'million
At 31 December 2017	314	324

A £1.2 million fair value gain was recognised with respect to the reclassified assets in 2017; had these assets not been reclassified, an additional fair value gain of £0.9 million would have been recognised in other comprehensive income. The effective interest rates on available-for-sale assets reclassified to held to maturity at 1 January 2017 and 31 December 2017 ranged from 0.96% to 3.65%, with all cash flows expected to be recoverable.

12. Property, plant and equipment

Accounting Policy

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

We depreciate property, plant and equipment on a straight-line basis to its residual value using the following useful economic lives:

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

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

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

Investment property

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

All items of investment property are reviewed annually for impairment.

12. Property, plant and equipment continued

Group	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Total £'million
Cost						
1 January 2018	11	198	136	26	35	406
Additions	–	80	59	7	4	150
Transfers	(1)	(3)	4	–	–	–
31 December 2018	10	275	199	33	39	556
Accumulated depreciation						
1 January 2018	–	29	6	14	29	78
Impairments	3	1	–	–	–	4
Charge for the year	–	10	2	4	4	20
Transfers	–	(1)	1	–	–	–
31 December 2018	3	39	9	18	33	102
Net book value	7	236	190	15	6	454

Investment property consists of shops and offices which are located within the same buildings as some of our stores, where we have acquired the freehold interest. Investment property is held to earn rental income and for capital appreciation. At 31 December 2018 our investment property had a fair value of £7 million (31 December 2017: £11 million).

Group	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Total £'million
Cost						
1 January 2017	–	170	86	20	31	307
Additions	3	36	50	6	4	99
Transfers	8	(8)	–	–	–	–
31 December 2017	11	198	136	26	35	406
Accumulated depreciation						–
1 January 2017	–	22	3	11	24	60
Charge for the year	–	8	2	3	5	18
Transfers	–	(1)	1	–	–	–
31 December 2017	–	29	6	14	29	78
Net book value	11	169	130	12	6	328

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

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

13. Intangible assets

Accounting policy

Goodwill

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

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

Goodwill is not amortised, however it is reviewed for impairment on an annual basis. The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows. If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets

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

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

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

Core banking software[1]	20 years
Other banking software	3 to 10 years
Software licences	Licence period
Customer contracts	10 years

1. Core banking software consists of our central banking transaction platform. It has been assessed as having a 20 year life due to it being the central component of our digital infrastructure. It has been in use since we first opened and given its significance is unlikely to be replaced within the foreseeable future.

All intangible assets are reviewed annually for impairment.

Group	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2018	4	1	174	179
Additions	–	–	75	75
31 December 2018	4	1	249	254
Amortisation				
1 January 2018	–	1	30	31
Impairments	–	–	1	1
Charge for the year	–	–	25	25
31 December 2018	–	1	56	57
Net book value	4	–	193	197

13. Intangible assets continued

At 31 December 2018, core banking software with a useful economic life of 20 years had a carrying amount of £7.8 million (2017: £8.6 million).

Group	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2017	4	1	102	107
Additions	–	–	70	70
Reclassifications	–	–	2	2
31 December 2017	4	1	174	179
Amortisation				
1 January 2017	–	1	14	15
Charge for the year	–	–	15	15
Reclassifications	–	–	1	1
31 December 2017	–	1	30	31
Net book value	4	–	144	148

The goodwill held on our balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate CGU; of the total balance of £4.1 million (2017: £4.1 million), 100% has been allocated to SME Invoice Finance Limited.

The recoverable amount of SME Invoice Finance Limited has been based on a value-in-use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a seven-year period and a discount rate of 7.9%. The long-term growth rate is consistent with external sources of information reviewed by management. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of SME Invoice Finance Limited to fall below the balance sheet carrying value. Seven years was used as the basis for discounted cash flow calculation to align with the 2018-2024 plan, prepared by management and approved by the Board, and used in decision-making. The plan is reviewed and updated annually.

Company	2018 Software £'million	2017 Software £'million
Cost		
1 January	**171**	101
Additions	**75**	68
Reclassifications	**–**	2
31 December	**246**	171
Amortisation		
1 January	**30**	14
Impairments	**1**	–
Charge for the year	**25**	15
Reclassifications	**–**	1
31 December	**56**	30
Net book value	**190**	141

14. Prepayments and accrued income

Group	31 December 2018 £'million	31 December 2017 £'million
Prepayments	32	26
Accrued income	29	22
VAT receivable	3	3
Other	2	1
Total prepayments and accrued income	66	52
Current portion	66	52
Non-current portion	–	–

Company	31 December 2018 £'million	31 December 2017 £'million
Prepayments	29	24
Accrued income	29	22
VAT receivable	3	3
Other	2	1
Total prepayments and accrued income	63	50
Current portion	63	50
Non-current portion	–	–

15. Other assets

Group	31 December 2018 £'million	31 December 2017 £'million
Assets pledged as collateral	14	11
Other[1]	36	15
Total other assets	50	26
Current portion	39	15
Non-current portion	11	11

Company	31 December 2018 £'million	31 December 2017 £'million
Assets pledged as collateral	14	11
Other[1]	36	14
Amounts owed by Group undertakings	305	215
Total other assets	355	240
Current portion	344	229
Non-current portion	11	11

1. Other balance primarily comprise customer transactions in process over year end.

16. Deposits from customers

The total deposits from customers is comprised of 47% from retail customers (2017: 47%) and 53% from commercial customers (2017: 53%).

Group and Company	31 December 2018 £'million	31 December 2017 £'million
Deposits from retail customers	7,429	5,477
Deposits from commercial customers	8,232	6,192
Total deposits from customers	**15,661**	11,669

17. Debt securities

Accounting policy	Debt securities in issue are recognised initially at fair value, being proceeds less transaction costs. Subsequently debt securities are measured at amortised cost using the effective interest method.

On 18 June 2018 we issued £250 million of subordinated debt securities to provide Tier 2 capital to support future growth.

Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
18th June 2018	GBP	250	5.50%	26/06/2023	26/06/2028

Group and Company	31 December 2018 £'million	31 December 2017 £'million
Amount at 1 January	–	–
Issuances	250	–
Costs associated with issuance	(1)	–
Accrued interest payable	–	–
Carrying amount at 31 December	**249**	–

18. Other liabilities

Group	31 December 2018 £'million	31 December 2017 £'million
Trade creditors	5	0
Other taxation and social security costs	6	5
Accruals	97	67
Deferred income	18	16
Other liabilities	63	59
Total other liabilities	**189**	147
Current portion	159	133
Non-current portion	30	9

18. Other liabilities continued

Company	31 December 2018 £'million	31 December 2017 £'million
Trade creditors	**5**	0
Other taxation and social security costs	**6**	5
Accruals	**96**	67
Deferred income	**18**	16
Other liabilities	**57**	54
Total other liabilities	**182**	142
Current portion	**153**	133
Non-current portion	**30**	9

19. Called-up share capital

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

We have a single class of shares. As at 31 December 2018 we had 97.4 million ordinary shares of 0.0001p (31 December 2017: 88.5 million) authorised and in issue.

In July 2018, we issued 8.9 million ordinary shares of 0.0001p each, for consideration of £303 million. Related transaction costs of £3 million have been deducted from equity during the year.

Additionally, during the year we issued 0.1 million ordinary shares which relate to the exercise of previously awarded share options. These options contributed £1 million to share premium

Called-up ordinary share capital, issued and fully paid

Group and Company	31 December 2018 £'million	31 December 2017 £'million
Called-up ordinary share capital, issued and fully paid		
1 January	**–**	–
Issued	**–**	–
31 December	**–**	–

Share premium

Group and Company	31 December 2018 £'million	31 December 2017 £'million
Share premium account		
1 January	**1,304**	1,028
Issued	**304**	279
Costs of shares issued	**(3)**	(3)
31 December	**1,605**	1,304

20. Share options

Accounting policy

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

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

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

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

	2018		2017	
Group	Number of options '000	Weighted average exercise price £	Number of options '000	Weighted average exercise price £
Outstanding at 1 January	3,377	18.98	2,907	15.04
Granted	1,001	35.36	768	32.73
Exercised	(144)	16.14	(195)	13.94
Lapsed	(131)	25.05	(103)	20.37
Outstanding at 31 December	4,104	22.90	3,377	18.98
Exercisable at 31 December	2,287	18.22	1,694	16.19

The average share price during 2018 was 3,075p (2017: 3,488p). The number of options outstanding at year end was as follows:

	2018		2017	
Exercise price	Number of options '000	Weighted average remaining contractual life years	Number of options '000	Weighted average remaining contractual life years
£9.00	47	2.8	52	3.8
£10.00	129	3.8	145	4.8
£12.00	236	4.9	260	5.9
£13.00	60	5.2	66	6.2
£13.50	621	5.8	650	6.8
£14.00	194	n/a	212	n/a
£16.00	647	n/a	713	n/a
£20.00	498	7.2	536	8.2
£32.73	708	8.2	743	9.2
£35.36	963	9.2	–	–
Total	4,104	7.4	3,377	7.6

20. Share options continued

The fair value of the options granted during the year is determined using a Black-Scholes valuation model. The total fair value of options granted in 2018 was £4.3 million (2017: £3.3 million), based on the following assumptions:

Group	2018 cash bonus exchange	2018 share options
Weighted average risk-free interest rate	0.87%	0.94%
Weighted average expected life	2.5 years	3.25 years
Weighted average expected volatility	22.52%	21.96%
Weighted average expected dividend yield	nil	nil
Weighted average share price	£35.36	£35.36
Weighted average exercise price	£35.36	£35.36

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

We have no other remuneration related instruments in issue.

21. Reconciliation of movements in retained earnings

Group	31 December 2018 £'million	31 December 2017 £'million
1 January	(219)	(230)
IFRS 9 transition adjustment (net of tax)	(17)	–
Profit for the year	27	11
31 December	(209)	(219)

Company	31 December 2018 £'million	31 December 2017 £'million
1 January	(227)	(236)
IFRS 9 transition adjustment (net of tax)	(14)	–
Profit for the year	27	9
31 December	(214)	(227)

The IFRS 9 transition adjustment (net of tax) is the day one impact arising from the adoption of IFRS 9 on 1 January 2018. Further details about this adjustment can be found in note 1.4.

22. Leases

Accounting policy All of our leases are classified as operating leases. Total payments made under our operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment we are required to make to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Commitments under leases

We lease various offices and stores under non-cancellable operating lease arrangements. The total operating lease expenditure recognised in the statement of comprehensive income during the year was £25.5 million (2017: £19.6 million). The leases have various terms, escalation, renewal and rights. At the balance sheet date, future minimum payments under operating leases relating to land and buildings, inclusive of irrecoverable VAT, were as follows:

Group	31 December 2018 £'million	31 December 2017 £'million
Due		
Within one year	30	20
Due in one to five years	133	81
Due in more than five years	495	318
Total	659	419

On 1 January 2019 we adopted IFRS 16 which will significantly change the way we account for leases. Further details on the impact of the adoption of IFRS 16 can be found in note 1.5.

Future income due under non-cancellable operating leases

We lease out surplus space in some of our properties. The table below sets out the cash payments expected over the remaining non-cancellable term of each lease, exclusive of any VAT. Of the total below, £11.3 million (2017: £12.0 million) relates to sub-letting of leased stores. During the year, £1.0 million (2017: £1.4 million) was recognised as rental income in the statement of comprehensive income.

Group	31 December 2018 £'million	31 December 2017 £'million
Receivable		
Within one year	1	1
Due in one to five years	4	4
Due in more than five years	9	10
Total	14	15

23. Credit risk

Accounting policy

We assess on a forward-looking basis the expected credit losses ('ECL') associated with the assets carried at amortised cost and FVOCI and recognise a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly. Risk of default and expected credit losses must incorporate forward looking and macroeconomic information.

Loans and advances

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages . Expected credit losses are calculated for drawn loans, and for committed lending.

The same broad calculation approach is applied for each core model. Expected credit losses are calculated by multiplying three main components, being the probability of default, loss given default and the exposure at default, discounted at the original effective interest rate.

Key model inputs and judgements include:
- Consideration of when a significant increase in credit risk occurs
- Probability of default ('PD'), loss given default, and exposure at default
- Macro economic scenarios to be applied

Significant increase in credit risk

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach:

Stage	Description	ECL recognised
Stage 1	Financial assets that have had **no significant increase in credit risk** since initial recognition or that have low credit risk at the reporting date.	**12-month expected credit losses** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macro-economic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macro-economic scenarios.
Stage 3	Financial assets that are **credit impaired** at the reporting date. A financial asset is credit impaired when it has met the definition of default. We define 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.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macro-economic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired (POCI) asset	Financial assets that have been purchased and had **objective evidence of being "non-performing" or "credit impaired"** at the point of purchase.	**Lifetime expected credit losses** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognized as a loss allowance.

23. Credit risk continued

A significant increase in credit risk may be identified in a number of ways:

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The selection of the threshold is such that the PD threshold of the observed median lifetime PD at origination is 3 times this median.
- Qualitative criteria –Instruments that are 30 days past due or more are allocated to stage 2, regardless of the results of the quantitative analysis. Instruments that are 30 days past due or more or instruments classified on the watchlist as higher risk are allocated to Stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realization of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with; or
- A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as "non-performing" or "credit impaired". Instead, the combined effect of several events may cause financial assets to become credit impaired.

A probation period is implemented before transferring a financial instrument to a lower stage (ie, from Stage 3 to Stage 2, or from Stage 2 to Stage 1). Specifically, in order to move an account from Stage 3 to Stage 2, we apply a backstop such that the instrument should meet the Stage 2 criteria for three consecutive months. The same logic is applied when transferring an account from Stage 2 to Stage 1.

Probability of default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A probability of default is calculated for all loans based on historic data and incorporates:

- Credit quality scores
- Lifecycle trends depending on a loan's vintage
- Factors indicating the quality of the vintage
- Characteristics of the current and future economic environment

Loss given default

The loss given default ('LGD') represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates – one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral on secured portfolios – a key driver of the expected recovery in the event of default
- Expected haircut applied to the collateral value to reflect a forced sale discount
- Price index forecasts applied to project collateral values into the future
- Stress factors based on macro-economic scenarios

Exposure at default

This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest should be accrued
- Repayments may be received on mortgages
- For a revolving product, further drawings may be taken between the current point in time and the point of default
- Estimations of these factors will be incorporated into our estimate of exposure at default.
- PD, LGD and exposure at default are calculated and applied at an individual account level for secured lending. For unsecured lending, PD and exposure at default are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

23. Credit risk continued

Macro economic scenarios

The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e. where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

In the normal course of business, we use three scenarios. These represent a 'most likely outcome', (the "Baseline" scenario) and two, less likely, 'Outer' scenarios on either side of the Baseline scenario, referred to as an "Upside" and a "Downside" scenario respectively. The Baseline scenario captures the most likely economic future; the downside scenario presents particular adverse economic conditions; and the upside scenario presents more favourable economic conditions.

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied:
- UK interest rates
- UK unemployment rates
- UK house price index ('HPI') changes, year on year
- UK gross domestic product ('GDP') changes, year on year

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index collateral which has a direct impact on LGDs. Other metrics are considered to have a direct impact on PDs and were selected following a search and data calibration exercise of possible drivers. A list of around 15 potential drivers were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. The list included variables which impact economic output, interest rates, inflation, stock prices, borrower income and the UK housing market. An algorithm was then used to choose the subset of drivers which had the greatest significance and predictive fit to Metro Bank data.

Each scenario was determined by flexing the baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A large number of possible future paths is simulated. The Downside scenario has been set to be worse than 90% of possible future outcomes; the Upside scenario has been set to be better than 90% of possible future outcomes. These assumptions are considered sufficient to capture any material nonlinearities.

A simulation process was designed to determine the weighting to apply to each scenario based on the severity of each scenario and the range of possible scenarios for which that scenario was representative.

We recognise that applying the above three scenarios will not always be sufficient to determine an appropriate ECL in all economic environments. A forth scenario has been included in the 31 December 2018 ECL, a "Hard Brexit" scenario, adding to the result derived using the three scenarios detailed above. This additional scenario reflects management's judgement that the scenarios above do not fully reflect the high degree of uncertainty in estimating the current uncertainty in the UK economy ahead of the UK's departure from the European Union in 2019 ('Brexit'). The Hard Brexit scenario is more severe than the current downside scenario and is considered to be in keeping with some of the more severe outcomes published by UK government departments and industry bodies. The Hard Brexit scenario is used as an add-on to the three "business as usual" scenarios.

The weightings applied to each scenario at 31 December 2018 are:
- Baseline – 37%
- Upside and downside – 28% each
- Hard Brexit – 7%

This weighting scheme is deemed as being appropriate for the computation of unbiased ECL.

23. Credit risk continued

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2018 are as follows:

	2019	2020	2021	2022
Interest rates (%)	Base: 2.2% Upside: 2.1% Downside: 0.9% Brexit:0.5%	Base: 2.6% Upside: 3.1% Downside: 1.2% Brexit: 0.8%	Base: 2.8% Upside: 3.1% Downside: 1.4% Brexit: 0.9%	Base: 3.2% Upside: 3.5% Downside: 1.6% Brexit: 1.3%
UK unemployment (%)	Base: 4.6% Upside: 3.3% Downside: 6.2% Brexit: 6.7%	Base: 4.8% Upside: 3.4% Downside: 7.2% Brexit: 8.4%	Base: 5.0% Upside: 3.6% Downside: 7.3% Brexit: 8.5%	Base: 5.0% Upside: 3.0% Downside: 6.9% Brexit: 8.1%
UK house price index – % change year-on-year	Base: 1.9% Upside: 7.6% Downside: (5.3)% Brexit: (8.5)%	Base: 0.5% Upside: 4.5% Downside: (6.4)% Brexit: (11.1)%	Base: 1.2% Upside: 1.9% Downside: 0.0% Brexit: (1.7)%	Base: 1.9% Upside: 0.9% Downside: 3.7% Brexit: (4.3)%
UK GDP – % change year-on-year	Base: 1.6% Upside: 4.0% Downside: (1.9)% Brexit: (3.6)%	Base: 1.4% Upside: 2.1% Downside: 0.8% Brexit: (0.2)%	Base: 1.9% Upside: 1.9% Downside: 2.6% Brexit: 2.6%	Base: 1.8% Upside: 1.6% Downside: 2.0% Brexit: 2.3%

The assumptions used for the ECL estimate as at 1 January 2018 are as follows:

	2018	2019	2020	2021	2022
Interest rates (%)	Base: 1.7% Upside: 1.8% Downside: 1.5% Brexit: n/a	Base: 2.3% Upside: 2.6% Downside: 1.0% Brexit: n/a	Base: 2.7% Upside: 2.9% Downside: 1.0% Brexit: n/a	Base: 2.6% Upside: 3.0% Downside: 1.3% Brexit: n/a	Base: 3.0% Upside: 3.3% Downside: 1.8% Brexit: n/a
UK unemployment (%)	Base: 4.6% Upside: 4.0% Downside: (5.7)% Brexit: n/a	Base: 4.8% Upside: 3.5% Downside: 7.1% Brexit: n/a	Base: 5.0% Upside: 3.6% Downside: 7.5% Brexit: n/a	Base: 5.1% Upside: 3.9% Downside: 7.3% Brexit: n/a	Base: 5.1% Upside: 4.1% Downside: 6.9% Brexit: n/a
UK house price index – % change year-on-year	Base: 2.9% Upside: 5.8% Downside: (0.9)% Brexit: n/a	Base: 1.3% Upside: 7.2% Downside: (7.3)% Brexit: n/a	Base: 0.9% Upside: 3.2% Downside: (2.7)% Brexit: n/a	Base: 1.8% Upside: 1.6% Downside: 1.8% Brexit: n/a	Base: 2.4% Upside: 1.0% Downside: 4.3% Brexit: n/a
UK GDP – % change year-on-year	Base: 1.6% Upside: 3.4% Downside: (1.1)% Brexit: n/a	Base: 1.6% Upside: 3.2% Downside: (0.8)% Brexit: n/a	Base: 1.8% Upside: 2.1% Downside: 1.9% Brexit: n/a	Base: 1.9% Upside: 1.7% Downside: 2.5% Brexit: n/a	Base: 1.8% Upside: 1.6% Downside: 2.0% Brexit: n/a

Following the initial four year projection period, the Upside and Downside scenarios converge to the Baseline scenario. The rate of convergence varies based on the macro economic factor, but at a minimum convergence takes place three years from the initial four year projection period.

We note that the scenarios applied comprise our best estimate of economic impacts on the ECL, and the actual outcome may be significantly different.

Investment securities and other financial assets

Impairment provisions have been calculated based on our best estimate of expected credit losses on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. Impairment provisions are not material.

23. Credit risk continued

Previous accounting policy
2017 comparative data is disclosed under IAS 39, with principal accounting policies outlined below.

Assets carried at amortised cost
We assess at each reporting date whether there is objective evidence that a financial asset is impaired. The impairment relating to loans and advances is calculated and assigned in accordance with the accounting standards for individual and collective impairment:
- Impairment of individual loans is designed to recognise specific risks identified following the occurrence of a loss event; for example, a commercial customer whose business has gone into administration. If loans are considered to be at risk, an individual assessment will be performed.
- For loans that are not considered to be individually impaired (whether individually significant or not), a collective impairment assessment is performed. Collective provisions are intended to reflect the estimated amount of losses incurred on a collective basis, but which have yet to be individually identified. The lending exposure subject to collective impairment is assessed for each group of loans with similar credit risk characteristics.

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

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

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

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

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from our loans and advances to customers and other banks, and investment debt securities. Given our main income generating activity is lending money to customers, credit risk is one of our principal risks.

Credit risk management
Details of how we manage our credit risk can be found on pages 32 to 33.

Collateral
The principal method by which we mitigate credit risk is through requesting collateral and guarantees against our retail mortgage and commercial lending. The principal collateral types for loans and advances are:
- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;

Charges over financial instruments such as debt securities and equities.
Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise credit loss, we will seek additional collateral from the counterparty as soon as a significant increase in credit risk is identified for the relevant individual loans and advances.

23. Credit risk continued

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Our investment securities are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

We prepare a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically for longer-term financing or when a significant increase in credit risk has been identified.

Our policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group.

Investment securities

We invest in high-quality liquid debt instruments as required by our Securities Trading and Investment policy. The analysis below details the credit rating of the securities as at 31 December 2018 and 31 December 2017.

	31 December 2018 £'million		31 December 2017 £'million	
Credit rating	Investment securities held at amortised cost	Investment securities held at FVOCI	Investment securities held to maturity	Available-for-sale investment securities
AAA	**3,113**	**230**	2,924	181
AA- to AA+	**306**	**319**	381	125
A- to A+	**39**	**28**	108	26
Lower than A-	**–**	**97**	141	29
Total	**3,458**	**674**	3,554	361

All investment securities held at FVOCI are deemed to be in Stage 1. Any credit loss allowance is, however, included as part of the revaluation amount in the FVOCI reserve. At 31 December 2018 the loss allowance is included within the FVOCI reserve is £0.3 million (31 December 2017: N/A).

All investment securities held at amortised cost are deemed to be in Stage 1. The total expected credit loss recognised for these assets at 31 December 2018 is £0.2 million (31 December 2017, allowance for impairment: nil).

Retail mortgage lending

The table below stratifies credit exposures from retail mortgages by ranges of debt-to-value ('DTV') ratio. The average DTV of the residential mortgage loan book is 61% (2017: 60%):

	31 December 2018 £'million			31 December 2017 £'million		
Group and company	Retail owner occupied	Retail buy-to-let	Total retail mortgages	Retail owner occupied	Retail buy-to-let	Total retail mortgages
DTV ratio						
Less than 50%	**2,124**	**458**	**2,582**	1,404	316	1,720
51–60%	**1,195**	**493**	**1,688**	771	342	1,113
61–70%	**1,374**	**553**	**1,927**	1,010	415	1,425
71–80%	**1,362**	**596**	**1,958**	716	420	1,136
81–90%	**1,205**	**129**	**1,334**	538	130	668
91–100%	**80**	**33**	**113**	80	35	115
More than 100%	**11**	**12**	**23**	39	15	54
Total retail mortgage lending	**7,351**	**2,274**	**9,625**	4,558	1,673	6,231

23. Credit risk continued

A geographic analysis of the location of retail mortgage collateral is set out below:

Group and company	31 December 2018 £'million Retail owner occupied	Retail buy-to-let	Total retail mortgages	31 December 2017 £'million Retail owner occupied	Retail buy-to-let	Total retail mortgages
Region						
Greater London	3,034	1,231	4,265	1,989	911	2,900
South east	1,797	383	2,180	1,115	280	1,395
South west	616	122	738	342	82	424
East of England	492	91	583	289	66	355
North west	405	138	543	236	105	341
West Midlands	293	81	374	164	51	215
Yorkshire and the Humber	207	73	280	131	57	188
East Midlands	241	57	298	138	39	177
Wales	141	36	177	81	24	105
North east	83	31	114	51	27	78
Northern Ireland	4	27	31	4	28	32
Scotland	38	4	42	18	3	21
Total retail mortgage lending	7,351	2,274	9,625	4,558	1,673	6,231

An analysis of our retail mortgage book by repayment type is set out below:

Group and company	31 December 2018 £'million Retail owner occupied	Retail buy-to-let	Total retail mortgages	31 December 2017 £'million Retail owner occupied	Retail buy-to-let	Total retail mortgages
Repayment						
Interest	2,242	2,166	4,408	1,413	1,597	3,010
Capital and interest	5,109	108	5,217	3,145	76	3,221
Total retail mortgage lending	7,351	2,274	9,625	4,558	1,673	6,231

Commercial lending

The table below stratifies credit exposures from commercial term loans by ranges of debt-to-value ('DTV') ratio. The average debt-to-value ('DTV') of the commercial term loan book is 59% (2017: 58%):

Group and company	31 December 2018 £'million	31 December 2017 £'million
DTV ratio		
Less than 50%	1,277	1,011
51–60%	936	610
61–70%	791	495
71–80%	249	209
81–90%	100	116
91–100%	51	32
More than 100%	424	343
Total commercial term lending	3,828	2,816

23. Credit risk continued

A geographic analysis by location of customers who hold commercial term loans is set out below:

Group and company	31 December 2018 £'million	31 December 2017 £'million
Region		
Greater London	2,465	1,914
South east	677	457
South west	229	167
East of England	151	93
North west	145	96
West Midlands	50	21
Yorkshire and the Humber	26	16
East Midlands	33	16
Wales	29	22
North east	16	8
Northern Ireland	3	2
Scotland	4	4
Total commercial term loans	3,828	2,816

An analysis of our commercial term loan book by repayment type is set out below:

Group and company	31 December 2018 £'million	31 December 2017 £'million
Repayment		
Interest	1,592	1,111
Capital and interest	2,236	1,705
Total commercial term loans	3,828	2,816

A sector analysis of our commercial term loan book is set out below:

Group and company	31 December 2018 £'million	31 December 2017 £'million
Industry sector		
Real estate (rent, buy and sell)	2,547	1,704
Legal, accountancy and consultancy	384	304
Health and social work	217	214
Hospitality	235	185
Real estate (management of)	72	104
Retail	99	84
Construction	60	69
Investment and unit trusts	1	21
Recreation, cultural and sport	19	18
Real estate (development)	52	26
Education	15	4
Other	127	83
Total commercial term loans	3,828	2,816

The remainder of commercial lending consists of overdraft and credit cards which are generally unsecured alongside asset and invoice finance lending.

23. Credit risk continued

Credit risk exposure

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 Stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. We consider that the arrears status of customer lending is an appropriate method of assessing the credit quality of that lending. The stage of customer lending is also influenced by other metrics as described in our accounting policy above. The tables below set out the distribution of customer lending by credit quality and stage allocation. The ECL on our investment securities and other financial assets is immaterial and therefore no analysis has been provided.

Retail mortgages

	31 December 2018			
£'million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	9,242	275	19	2
1 to 29 days past due	3	14	4	1
30 to 89 days past due	–	47	7	1
90+ days past due	–	–	9	1
Gross carrying amount	9,245	336	39	5

Consumer lending

	31 December 2018			
£'million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	272	–	–	–
1 to 29 days past due	3	3	–	–
30 to 89 days past due	–	5	–	–
90+ days past due	–	–	5	–
Gross carrying amount	275	8	5	–

Commercial lending (excluding asset and invoice finance)

	31 December 2018			
£'million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	3,918	6	2	–
1 to 29 days past due	52	44	–	–
30 to 89 days past due	–	27	1	–
90+ days past due	–	–	7	–
Gross carrying amount	3,970	77	10	–

Asset and invoice finance

	31 December 2018			
£'million	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	295	–	–	–
1 to 29 days past due	–	–	–	–
30 to 89 days past due	–	–	4	–
90+ days past due	–	–	–	–
Gross carrying amount	295	–	4	–

23. Credit risk continued

Loss allowance

The following tables explain the changes in both the gross carrying amount and loss allowances of our loans and advances during the period. Significant changes in the gross carrying amount which contributed to changes in the loss allowance are explained below. Other movements consists of changes to model assumptions and forward looking information.

Retail mortgages

New lending includes the purchase of a seasoned mortgage book in March 2018 for c.£520 million. All lending in the portfolio is secured on property, predominantly in London and the South East, with the remainder spread across the UK, and has a similar credit risk profile to the rest of our book. Approximately 65% of the book is classified within retail mortgages, with the remainder within commercial lending.

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	6,065	129	33	4	**6,231**	(1)	(3)	(5)	(1)	**(10)**	6,064	126	28	3	**6,221**
Transfers to/(from) stage 1[1]	60	(52)	(8)	–	–	(1)	1	–	–	–	59	(51)	(8)	–	–
Transfers to/(from) stage 2	(222)	223	(1)	–	–	1	(1)	–	–	–	(221)	222	(1)	–	–
Transfers to/(from) stage 3	(16)	(7)	23	–	**–**	–	1	(1)	–	–	(16)	(6)	22	–	–
Net remeasurement due to transfers[2]	–	–	–	–	**–**	1	(2)	(1)	–	**(2)**	1	(2)	(1)	–	**(2)**
New lending[3]	3,933	76	3	2	**4,014**	(1)	(1)	–	–	**(2)**	3,932	75	3	2	**4,012**
Repayments, additional drawdowns and interest accrued	(151)	(7)	(1)	(1)	**(160)**	–	–	–	–	**–**	(151)	(7)	(1)	(1)	**(160)**
Derecognitions[4]	(424)	(26)	(10)	–	**(460)**	1	–	1	–	**2**	(423)	(26)	(9)	–	**(458)**
Changes to model assumptions[5]	–	–	–	–	**–**	–	–	2	(1)	**1**	–	–	2	(1)	**1**
31 December 2018	**9,245**	**336**	**39**	**5**	**9,625**	**–**	**(5)**	**(4)**	**(2)**	**(11)**	**9,245**	**331**	**35**	**3**	**9,614**

1. Represents stage transfers prior to any ECL remeasurements
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer, including any changes to the model assumptions and forward looking information.
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed.
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off.
5. Represents the change in loss allowances resulting from changes to the model assumptions, forward looking information and changes in the customers risk profile

Consumer lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	191	20	6	–	**217**	(1)	(11)	(5)	–	**(17)**	190	9	1	–	**200**
Transfers to/(from) stage 1	2	(2)	–	–	–	–	–	–	–	–	2	(2)	–	–	–
Transfers to/(from) stage 2	(3)	3	–	–	–	–	–	–	–	–	(3)	3	–	–	–
Transfers to/(from) stage 3	(1)	(1)	2	–	–	–	–	–	–	–	(1)	(1)	2	–	–
Net remeasurement due to transfers	–	–	–	–	**–**	–	(1)	(1)	–	**(2)**	–	(1)	(1)	–	**(2)**
New lending	160	2	1	–	**163**	(2)	(1)	–	–	**(3)**	158	1	1	–	**160**
Repayments, additional drawdowns and interest accrued	(27)	(1)	–	–	**(28)**	–	–	–	–	**–**	(27)	(1)	–	–	**(28)**
Derecognitions	(47)	(13)	(4)	–	**(64)**	–	10	3	–	**13**	(47)	(3)	(1)	–	**(51)**
Changes to model assumptions	–	–	–	–	**–**	–	–	–	–	**–**	–	–	–	–	**–**
31 December 2018	**275**	**8**	**5**	**–**	**288**	**(3)**	**(3)**	**(3)**	**–**	**(9)**	**272**	**5**	**2**	**–**	**279**

23. Credit risk continued

Commercial lending (excluding asset and invoice finance)

Our top 10 commercial exposures total £347 million (2017: £250 million) representing 9% (2017: 8%) of our total commercial lending.

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	2,855	93	11	1	2,960	(2)	(1)	(1)	–	(4)	2,853	92	10	1	2,956
Transfers to/(from) stage 1	50	(50)	–	–	–	–	–	–	–	–	50	(50)	–	–	–
Transfers to/(from) stage 2	(53)	53	–	–	–	–	–	–	–	–	(53)	53	–	–	–
Transfers to/(from) stage 3	(4)	(3)	7	–	–	–	–	–	–	–	(4)	(3)	7	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(2)	(1)	–	(3)	–	(2)	(1)	–	(3)
New lending	1,512	10	1	–	1,523	(1)	–	–	–	(1)	1,511	10	1	–	1,522
Repayments, additional drawdowns and interest accrued	(75)	(7)	(2)	–	(84)	–	–	–	–	–	(75)	(7)	(2)	–	(84)
Derecognitions	(315)	(19)	(7)	(1)	(342)	–	–	–	–	–	(315)	(19)	(7)	(1)	(342)
Changes to model assumptions	–	–	–	–	–	(1)	–	(1)	–	(2)	(1)	–	(1)	–	(2)
31 December 2018	3,970	77	10	–	4,057	(4)	(3)	(3)	–	(10)	3,966	74	7	–	4,047

Asset and invoice finance

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	219	2	5	–	226	(3)	–	(2)	–	(5)	216	2	3	–	221
Transfers to/(from) stage 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) stage 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) stage 3	(2)	(1)	3	–	–	–	–	–	–	–	(2)	(1)	3	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	–	(1)	–	(1)	–	–	(1)	–	(1)
New lending	142	–	–	–	142	(2)	–	–	–	(2)	140	–	–	–	140
Repayments, additional drawdowns and interest accrued	(45)	–	(2)	–	(47)	–	–	–	–	–	(45)	–	(2)	–	(47)
Derecognitions	(19)	(1)	(2)	–	(22)	–	–	1	–	1	(19)	(1)	(1)	–	(21)
Changes to model assumptions	–	–	–	–	–	3	–	–	–	3	3	–	–	–	3
31 December 2018	295	–	4	–	299	(2)	–	(2)	–	(4)	293	–	2	–	295

23. Credit risk continued

Total

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	9,330	244	55	5	**9,634**	(7)	(15)	(13)	(1)	**(36)**	9,323	229	42	4	**9,598**
Transfers to/(from) stage 1	112	(104)	(8)	–	**–**	(1)	1	–	–	**–**	111	(103)	(8)	–	**–**
Transfers to/(from) stage 2	(278)	279	(1)	–	**–**	1	(1)	–	–	**–**	(277)	278	(1)	–	**–**
Transfers to/(from) stage 3	(23)	(12)	35	–	**–**	–	1	(1)	–	**–**	(23)	(11)	34	–	**–**
Net remeasurement due to transfers	–	–	–	–	**–**	1	(5)	(4)	–	**(8)**	1	(5)	(4)	–	**(8)**
New lending	5,747	88	5	2	**5,842**	(6)	(2)	–	–	**(8)**	5,741	86	5	2	**5,834**
Repayments, additional drawdowns and interest accrued	(298)	(15)	(5)	(1)	**(319)**	–	–	–	–	**–**	(298)	(15)	(5)	(1)	**(319)**
Derecognitions	(805)	(59)	(23)	(1)	**(888)**	1	10	5	–	**16**	(804)	(49)	(18)	(1)	**(872)**
Changes to model assumptions	–	–	–	–	**–**	2	–	1	(1)	**2**	2	–	1	(1)	**2**
31 December 2018	**13,785**	**421**	**58**	**5**	**14,269**	**(9)**	**(11)**	**(12)**	**(2)**	**(34)**	**13,776**	**410**	**46**	**3**	**14,235**
Off Balance sheet items															
Commitments and gurantees[1]					1,125					–					1,125

1. Represents undrawn lending facilities. Further details can be found in note 26.

Non-performing loans

Non-performing loans are loans which have more than three instalments unpaid (90+ days past due). All non-performing loans are included within Stage 3 within the credit risk exposure and loss allowance tables on pages 144 to 147.

Group	31 December 2018		31 December 2017	
	Non-performing £'million	Non-performing loans ratio	Non-performing loans £'million	Non-performing loans ratio
Retail-residential mortgages	**9**	**0.09%**	9	0.15%
Retail-consumer and other	**5**	**1.74%**	6	2.78%
Commercial (including asset and invoice finance)	**7**	**0.16%**	11	0.35%
Total	**21**	**0.15%**	26	0.27%

Cost of risk

Cost of risk is credit impairment charges expressed as a percentage of average gross lending. Further details can be found on page 164.

Group	2018	2017
Retail-residential mortgages	**0.01%**	0.03%
Retail-consumer and other	**1.54%**	2.03%
Commercial (including asset and invoice finance)	**0.10%**	0.13%
Average cost of risk	**0.07%**	0.11%

23. Credit risk continued

Write-off policy
We write off financial assets (either partially or fully) when there is no realistic expectation of receiving further payment from the customer. Indicators that there is no reasonable expectation of recovery include debt sale to a third party and ceasing enforcement activity. We may write-off financial assets that are still subject to enforcement activity.

The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was £0.4 million.

Modification of financial assets
We sometimes renegotiate the terms of loans provided to customers with a view to maximising recovery.

Restructuring activities include extended payment arrangements or the modification or deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. In the majority of cases, restructuring results in the asset continuing to be credit-impaired. During the year only an immaterial amount of loans were modified and none of the modifications gave rise to a modification gain or loss.

2017 Credit risk disclosures
The disclosures below were included in our 2017 financial statements, however have no directly comparable equivalent this year owing to the adoption of IFRS 9. These disclosures have therefore been shown separately rather than adjacent to the 2018 tables.

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

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

	Group 2017		Company 2017	
	Loans and advances to customers £'million	Loans and advances to banks £'million	Loans and advances to customers £'million	Loans and advances to banks £'million
Neither past due nor impaired	9,486	100	9,259	95
Past due but not impaired	109	–	109	–
Individually impaired	12	–	10	–
Portfolio impaired	27	–	27	–
Total	9,634	100	9,406	95
Less: allowance for impairment	(14)	–	(13)	–
Total	9,620	100	9,393	95
Individually impaired	(3)	–	(2)	–
Collectively impaired[1]	(11)	–	(12)	–
Total allowance for impairment	(14)	–	(13)	–

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

23. Credit risk continued

	Group 31 December 2017 £'million	Company 31 December 2017 £'million
Allowance for impairment at 1 January	(7)	(7)
Write-offs	1	1
Balance sheet reclassification of operational loss provision	–	–
Increase in impairment allowance	(8)	(8)
Allowance for impairment at 31 December	(15)	(13)

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

Past due but not impaired

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

31 December 2017	Retail-residential mortgages £'million	Commercial £'million	Retail-consumer and other £'million	Total (Company) £'million	Asset and Invoice Finance £'million	Total (Group) £'million
Past due less than 7 days	27	37	1	65	–	65
Past due 7–30 days	19	19	1	39	–	39
Past due 31–60 days	2	–	1	3	–	3
Past due 61–90 days	1	–	1	2	–	2
Over 90 days	–	–	–	–	–	–
Total	49	56	4	109	–	109

24. Liquidity risk

Liquidity risk is the risk that do not have sufficient financial resources to meet our obligations as they fall due, or will have to do so at an excessive cost.

Liquidity risk management

Details of how we manage our liquidity risk can be found on page 35.

Maturity analysis for financial assets and financial liabilities

The tables below set out the maturity structure of our financial assets and liabilities by their earliest possible contractual maturity date; this differs from the behavioural maturity characteristics in both normal and stressed conditions. The behavioural maturity of customer deposits is much longer than their contractual maturity. On a contractual basis these are repayable on demand or at short notice, however in reality are static in nature and provide long-term stable funding for our operations and liquidity. Equally our Loans and advances to customers, specifically mortgages, are lent on longer contractual terms however are often redeemed or remortgaged earlier.

24. Liquidity risk continued

The total balances depicted in the analysis do not reconcile with the carrying amounts as disclosed in the consolidated balance sheet. This is because the maturity analysis incorporates all the expected future cash flows, on an undiscounted basis.

Group	Repayable on demand £'million	Up to 3 months £'million	3–6 months £'million	6–12 months £'million	1–5 years £'million	Over 5 years £'million	No contractual maturity £'million	Total £'million
31 December 2018								
Cash and balances with the Bank of England	2,286	–	–	–	–	–	–	2,286
Loans and advances to banks	186	–	–	–	–	–	–	186
Loans and advances to customers	–	313	289	558	4,092	16,886	374	22,512
Investment securities	–	98	321	407	3,273	290	–	4,389
Total financial assets	2,472	411	610	965	7,365	17,176	374	29,373
Other assets	–	113	1	2	379	3	–	498
Total assets	2,472	524	611	967	7,744	17,179	374	29,871
Deposits from customers	(10,818)	(964)	(686)	(1,587)	(954)	–	(700)	(15,709)
Deposits from central banks	–	(7)	(9)	(19)	(3,871)	–	–	(3,906)
Debt securities	–	–	(7)	(7)	(297)	–	–	(311)
Repurchase agreements	–	–	(1)	(37)	(259)	–	(58)	(355)
Other liabilities	–	(113)	–	(2)	(380)	(3)	–	(498)
Total financial liabilities	(10,818)	(1,084)	(703)	(1,652)	(5,761)	(3)	(758)	(20,779)
Capital	–	–	–	–	–	–	–	–
Total equity and liabilities	(10,818)	(1,084)	(703)	(1,652)	(5,761)	(3)	(758)	(20,779)
Cumulative liquidity gap	(8,346)	(8,906)	(8,998)	(9,683)	(7,700)	9,476	–	–

Group	Repayable on demand £'million	Up to 3 months £'million	3–6 months £'million	6–12 months £'million	1–5 years £'million	Over 5 years £'million	No contractual maturity £'million	Total £'million
31 December 2017								
Cash and balances with the Bank of England	2,112	–	–	–	–	–	–	2,112
Loans and advances to banks	100	–	–	–	–	–	–	100
Loans and advances to customers	–	188	173	353	2,720	10,458	295	14,187
Investment securities	–	56	62	459	2,990	611	–	4,178
Total financial assets	2,212	244	235	812	5,710	11,069	295	20,577
Other assets	–	116	–	–	53	5	2	176
Total assets	2,212	360	235	812	5,763	11,074	297	20,753
Deposits from customers	(8,437)	(565)	(389)	(1,129)	(598)	–	(581)	(11,699)
Deposits from central banks	–	(32)		(1)	(92)	–	–	(125)
Repurchase agreements	–	(3)	(4)	(10)	(3,396)	–	–	(3,413)
Other liabilities	(1)	(116)			(54)	(5)	–	(176)
Total financial liabilities	(8,438)	(716)	(393)	(1,140)	(4,140)	(5)	(581)	(15,413)
Capital	–	–	–	–	–	–	–	–
Total equity and liabilities	(8,438)	(716)	(393)	(1,140)	(4,140)	(5)	(581)	(15,413)
Cumulative liquidity gap	(6,226)	(6,582)	(6,740)	(7,068)	(5,445)	5,624	–	–

24. Liquidity risk continued

Financial assets pledged as collateral

We have pledged £5,768 million (2017: £4,478 million) of assets as encumbered collateral which can be called upon in the event of default. Of this, £1,762 million (2017: £2,419 million) is made up of high-quality securities and £4,006 million (2017: £2,059 million) is from our own loan portfolio prepositioned with the Bank of England to support some of the Term Funding Scheme ('TFS') drawings.

£5,412 million (2017: £4,358 million) of this encumbered collateral is pledged to the Bank of England through the Bank's participation in the TFS to support the £3,801 million (2017: £3,321million) of cash drawn down.

The remaining £356 million (2017: £120 million) is pledged with market participants in the form of repurchase agreements.

While we have drawn down borrowings from the Bank of England's Term Funding Scheme ('TFS'), our business model is primarily that of a deposit-led bank – with more deposits than loans. At the 31 December 2018 our loan-to-deposit ratio was 91% (31 December 2017: 82%) in line with our long term target. The closure of the TFS drawdown window in 2018 will not adversely affect us from the perspective of obtaining future funding. We anticipate refinancing our TFS drawings through future deposit growth.

25. Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect our income or the value of our holdings of financial instruments.

Market risk management

Details of how we manage our market risk can be found on page 36.

Interest rate risk

We are exposed to movements in interest rates arising from the mismatch between the dates on which interest receivable on financial assets and interest payable on financial liabilities are next reset to market rates. We manage this risk within a risk appetite framework that is set and approved by the Board.

Limits are set for the economic value of equity ('EVE') and net interest income ('NII'). EVE shall not drop more than £25 million based on the worse of a +200bps or -200bps instantaneous symmetrical parallel shock to interest rates, and one-year NII shall not drop more than £15 million based on the same shock. The EVE and NII limits are monitored daily by risk. Performance against limits are reported monthly to the ALCO (with exceptions communicated by email) and more regularly to senior management, as well as being noted by the Risk Oversight Committee and the Board.

Furthermore, a £15 million limit is set for a set of asymmetrical movements between LIBOR and the Bank of England Base Rate. Our Treasury Risk function runs a series of other interest rate risk simulations on a monthly basis to ensure that the ALCO is kept updated of any other risks not captured by the policy measures.

While we occasionally enter into hedging arrangements the impact of these arrangements is immaterial.

25. Market risk continued

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

31 December 2018	Up to 3 months £'million	3–6 months £'million	6–12 months £'million	1–5 years £'million	Over 5 years £'million	Non-interest bearing £'milion	Total £'million
Loans and advances to banks	–	–	–	–	–	186	186
Loans and advances to customers	5,235	579	1,184	7,186	51	–	14,235
Other assets	5,644	–	50	751	–	781	7,226
Total assets	10,879	579	1,234	7,937	51	967	21,647
Deposits from customers	(7,914)	(683)	(1,565)	(929)	–	(4,570)	(15,661)
Other liabilities	(3,949)	–	–	(445)	–	(189)	(4,583)
Shareholders' funds	–	–	–	–	–	(1,403)	(1,403)
Total liabilities	(11,863)	(683)	(1,565)	(1,374)	–	(6,162)	(21,647)
Interest rate sensitivity gap	(984)	(104)	(331)	6,563	51	(5,195)	–
Cumulative gap	(984)	(1,088)	(1,419)	5,144	5,195	–	–

31 December 2017	Up to 3 months £'million	3–6 months £'million	6–12 months £'million	1–5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Loans and advances to banks	–	–	–	–	–	100	100
Loans and advances to customers	4,173	343	753	4,311	37	3	9,620
Other assets	5,586	42	137	478	–	392	6,635
Total assets	9,759	385	890	4,789	37	495	16,355
Deposits from customers	(5,853)	(596)	(1,124)	(609)	–	(3,487)	(11,669)
Other liabilities	(3,505)	–	(1)	(52)	(5)	(26)	(3,589)
Shareholders' funds	–	–	–	–	–	(1,097)	(1,097)
Total liabilities	(9,358)	(596)	(1,125)	(661)	(5)	(4,610)	(16,355)
Interest rate sensitivity gap	401	(211)	(235)	4,128	32	(4,115)	–
Cumulative gap	401	190	(45)	4,083	4,115	–	–

A positive interest rate sensitivity gap exists when more assets than liabilities reprice during a given period. A positive gap position tends to benefit net interest income in an environment where interest rates are rising; however, the actual effect will depend on a number of factors including actual repayment dates and interest rate sensitivities within the banding periods. The converse is true for a negative interest rate sensitivity gap.

The below shows the sensitivity arising from the regulatory scenario of a +200bps and -200bps parallel interest rate shock for a one-year forecasting period upon projected net interest income.

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200bps increase £'million	200bps decrease (not floored at zero) £'million
At 31 December 2018	(3.4)	2.8
At 31 December 2017	(7.6)	7.1

There is no material difference between the interest rate risk profile for the Group and that for the Company.

26. Financial commitments

Accounting policy

To meet the financial needs of our customers, we enter into various irrevocable commitments. These generally consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 23).

When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 9, these are recognised within our loans and advances to customers.

At 31 December 2018, we had undrawn loan facilities granted to retail and commercial customers of £883 million (2017: £688 million).

In addition, as part of our retail and commercial operations, we had commitments of £242 million (2017: £138 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

27. Fair value of financial instruments

Accounting policy

Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which we have access at that date. The fair value of a liability reflects its non-performance risk.
In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments** –Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that we have access to at the measurement date. We consider markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- **Level 2 financial instruments** –Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, we will classify the instruments as Level 3.
- **Level 3 financial instruments** –Those that include one or more unobservable input that is significant to the measurement as whole.

27. Fair value of financial instruments continued

Group	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
31 December 2018					
Assets					
Loans and advances to banks	186	–	–	186	186
Loans and advances to customers	14,235	–	–	14,857	14,857
Investment securities	4,132	1,212	2,891	–	4,103
Liabilities					
Deposits from customers	15,661	–	–	15,605	15,605
Deposits from central bank	3,801	–	–	3,801	3,801
Debt securities	249	219	–	–	219
Repurchase agreements	344	–	–	344	344
31 December 2017					
Assets					
Loans and advances to banks	100	–	–	100	100
Loans and advances to customers	9,620	–	–	10,084	10,084
Investment securities	3,915	922	3,029	–	3,951
Liabilities					
Deposits from customers	11,669	–	–	11,650	11,650
Deposits from central bank	3,321	–	–	3,321	3,321
Repurchase agreements	121	–	–	122	122

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

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

Cash and balances with the Bank of England/loans and advances to banks
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. Fair values approximate carrying amounts as their balances are generally short-dated.

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

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

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

Debt securities
Fair values are determined using the quoted market price at the balance sheet date.

Deposits from central banks/repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short-dated.

28. Related parties

Key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors and members of the Executive Leadership Team are considered to be the key management personnel for disclosure purposes.

Key management compensation

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

Group	2018 £'million	2017 £'million
Short-term benefits	6.0	4.8
Share-based payment costs	3.1	2.4
Total compensation for key management personnel	9.1	7.2

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

Banking transactions with key management personnel

We provide banking services to Directors and other key management personnel and persons connected to them. Loan transactions during the year and the balances outstanding at 31 December were as follows:

Group	2018 £'million	2017 £'million
Loans outstanding at 1 January	3.0	3.2
Loans relating to persons and companies newly considered related parties	0.1	–
Loans relating to persons and companies no longer considered related parties	–	(0.3)
Loans outstanding as at 1 January for current key management personnel and their connected persons	3.1	2.9
Loans issued during the year	0.8	0.4
Loan repayments during the year	(0.1)	(0.3)
Loans outstanding as at 31 December	3.8	3.0
Interest expense on loans payable to the Group (£'000)	82	80

There were ten (31 December 2017: seven) loans outstanding at 31 December 2018 totalling £3.8 million (31 December 2017: £3.0 million). Of these, nine are residential mortgages secured on property and one is an unsecured loan; all loans were provided on our standard commercial terms.

In addition to the loans detailed above, the bank has issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel.

Credit card balances outstanding at 31 December were as follows:

Group	2018 £'000	2017 £'000
Credit cards outstanding as at 31 December	34	27

28. Related parties continued

Deposit balances outstanding at 31 December were as follows:

Group	2018 £'million	2017 £'million
Deposits held at 1 January	3.4	5.2
Deposits relating to persons and companies newly considered related parties	0.3	–
Deposits relating to persons and companies no longer considered related parties	(0.2)	(3.0)
Deposits held as at 1 January for current key management personnel and their connected persons	3.5	2.2
Net amounts deposited	1.0	1.2
Deposits outstanding as at 31 December	4.5	3.4

Other transactions with related parties

The following transactions were carried out with related parties:

Group	2018 £'000	2017 £'000
Architectural design services	4,084	4,135
Creative and brand services	498	513
Total purchase of services with entities connected to key management personnel	4,582	4,648
Amounts outstanding as at 31 December owed by Metro Bank	51	23

Architecture, design, creative and brand services are provided by InterArch, Inc. ('InterArch'), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II, the Chairman.

In order to ensure that the terms of the InterArch arrangements are consistent with those that could be obtained from an independent third party, and in accordance with the Articles, the contractual arrangements with InterArch are subject to an annual review by our Audit Committee using benchmarking reviews conducted by independent third parties. For the architectural design contract, which covers the build and design of our stores, a big four professional services firms carries out the benchmarking review. The creative and brand services contract which covers branding, marketing and advertising services is reviewed by the largest independent global marketing audit firm. For 2018, having reviewed the output from the independent audit of each contract, the Audit Committee has concluded that the contracts for services with InterArch are at arm's length and are at least as beneficial as those which could be obtained in the market from an alternative supplier.

In order to expand the suppliers used, the management intends to run a competitive tender in 2019 to identify an additional alternative supplier of architecture services.

Further details of the review conducted by the Audit Committee can be found on page 71.

Architectural design services

InterArch provide various architectural design services, including pre-design, architectural design, interior design, construction management, landscape architectural, signage, security design and layout and procurement services. The fee structure for each project is based on a fixed percentage of final construction costs. Certain additional services are provided on an hourly basis. The contract for architectural design services has recently been renegotiated. As part of the renegotiation, any recommendations of the independent audit have been picked up and included in the contract.

Creative and brand services

InterArch also provide branding, marketing and advertising services. The contract for creative and brand services has recently been renegotiated. As part of the renegotiation, any recommendations of the independent audit have been picked up and included in the contract.

For 2019, both the architectural design services and creative and brand services contracts have been aligned to be effective from 28 February 2019, for one year. In addition, both contracts have been subjected to the bank's recently adopted supplier risk management process.

29. Capital management

Capital is held to protect our depositors, cover our inherent risks, provide a cushion for stress events and to support our business strategy. In assessing the adequacy of our capital resources, we consider our business plan, risk appetite, the material risks to which we are exposed and the appropriate strategies required to manage those risks. We prepare an annual Internal Capital Adequacy Assessment Process document that sets out how we identify and manage the key risks to which we are exposed and details our capital requirements, capital resources and capital adequacy over the planning period, including under stress scenarios. This process is used to ensure that we apply appropriate management buffers to regulatory capital requirements in line with risk appetite.

In order to appropriately monitor and manage the Bank's capital resources, we produce regular reports on the current and forecasted level of capital for the Board and the Executive Leadership Team (chaired by the Chief Executive Officer). The key assumptions and risk drivers used to create the stress tests are regularly monitored and reported, and are used in determining how we will evolve our capital resources and ensure they are appropriate for growth.

We manage capital in accordance with prudential rules issued by the PRA and FCA, in line with the EU Capital Requirements Directive. In June 2013 the European Parliament approved new capital reforms (referred to as "CRD IV"), which implements Basel III in Europe. CRD IV legislation has been effective from 1 January 2014. We are committed to maintaining a strong capital base under both existing and future regulatory requirements.

The strength of our capital base is dependent upon the size of our capital relative to Risk Weighted Assets. In January 2019, we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million. Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. We are learning the lessons from this and will continue to improve our systems and controls around capital and risk-weighted assets.

Group	2018 £'million	2017 £'million
Ordinary share capital	–	–
Share premium	1,605	1,304
Retained earnings	(209)	(219)
Intangible assets	(197)	(148)
Deferred tax asset (CET1 element)	(54)	(57)
Deferred tax liability (CET1 element)	7	5
Other reserves	7	12
IFRS 9 transitional adjustment	12	–
Total Tier 1 capital (CET1)	1,171	897
Debt securities	249	–
Total Tier 2 capital	249	–
Total regulatory capital	1,420	897

30. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Earnings attributable to ordinary equity holders of Metro Bank (£'million)	27.1	10.8
Weighted average number of ordinary shares in issue – basic ('000)	92,964	84,412
Basic earnings per share (pence)	29.1	12.8

Diluted earnings per share has been calculated by dividing the earnings attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. For the year to 31 December 2018 1.7 million share options were anti-dilutive and excluded from the weighted average number of shares (year to 31 December 2017: nil)

	2018	2017
Earnings attributable to ordinary equity holders of Metro Bank (£'million)	27.1	10.8
Weighted average number of ordinary shares in issue – diluted ('000)	95,853	85,927
Diluted earnings per share (pence)	28.2	12.6

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

31. Investment in subsidiary undertakings

Accounting policy	We apply the acquisition method to account for business combinations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-Company transactions and balances are eliminated upon consolidation. All subsidiaries follow the same accounting policies as the Group.

The Group had the following subsidiaries at 31 December 2018:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
SME Invoice Finance Limited	UK	Invoice financing and factoring	100	–
SME Asset Finance Limited	UK	Asset finance	–	100
RDM Factors Limited	UK	Dormant	–	100

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

Transactions between the Company and Group subsidiaries

	2018 £'million	2017 £'million
Interest on inter-Company loan with SME Asset/Invoice Finance	6.1	4.1
Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance	305	215

Details of the registered offices of all our Group companies can be found on page 166.

32. Post balance sheet events

Risk weighted asset restatement

On 23 January 2019 we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our RWAs by £900 million. Whilst the risk weightings have been adjusted, there is no deterioration in the credit quality of the affected assets. We are learning the lessons from this and will continue to improve our systems and controls around capital and risk-weighted assets.

There is no impact to any of the financial information disclosed in these or prior years' financial statements as a result of this adjustment.

RBS alternative remedies package application outcome

On 22 February 2019 we were awarded £120 million from the RBS alternative remedies package-capability and innovation fund, the largest award available.

The financial effects of this award have not been recognised at 31 December 2018. This transaction will reflected in our results from the date we are contractually entitled to the funds.

Equity raise

On 26 February 2019 we announced our intentions to raise c.£350 million in additional equity. As part of this we have a committed standby underwrite in place to support this raise.

The financial effects of this equity raise have not been recognised at 31 December 2018, but will reflected in our results from the date any raise is undertaken.

PRA and FCA investigation

On 26 February 2019 we received notification that the PRA and FCA are investigating the circumstances and events that led to the RWA adjustment announced on 23 January 2019.

No adjustments have been made to these financial statements in respect of these investigations.

COUNTRY-BY-COUNTRY REPORTING

Metro Bank and its subsidiaries only operate with the United Kingdom ('UK') and are all UK registered entities. The Parent Company, Metro Bank, is a credit institution for the purposes of CRD IV and is therefore within the scope of CBCR. Our activities are disclosed within note 1 to the financial statements.

For the purposes of CBCR, the appropriate disclosures required are summarised below:

	UK
Number of employees (average full-time equivalent)	3,552
Turnover (£'million)	404.1
Profit before tax (£'million)	40.6
Tax expense (£'million)	13.5
Corporation tax paid (£'million)	3.6

No public subsidies were received during the year.

INDEPENDENT AUDITORS' REPORT

TO THE DIRECTORS OF METRO BANK PLC ON COUNTRY-BY-COUNTRY INFORMATION

Report on the audit of the country-by-country information

Opinion

In our opinion, Metro Bank PLC's country-by-country information for the year ended 31 December 2018 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2018 in the Annual Report and Accounts.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter - Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to the relevant note of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is not appropriate; or
- the directors have not disclosed in the country-by-country information any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the country-by-country information is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report and Accounts other than the country-by-country information and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the country-by-country information does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

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

INDEPENDENT AUDITORS' REPORT

TO THE DIRECTORS OF METRO BANK PLC ON COUNTRY-BY-COUNTRY INFORMATION CONTINUED

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation and accounting policies in note 1, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

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

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

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Darren Meek

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 April 2019

GLOSSARY

Application programming interface ('API')	The protocols, routines, functions and/or commands that programmers use to develop software or facilitate interaction between distinct systems.
Common equity tier 1 capital ('CET1')	The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments. A breakdown of our CET1 capital can be found in note 29.
Debt-to-value ratio ('DTV')	The ratio of the gross outstanding amount to the indexed value of the collateral.
Expected credit loss ('ECL')	The present value of the amount expected to be lost on a financial asset.
Exposure at default ('EAD')	The amount that we expect to be owed at the point of default.
Encumbered assets	Assets recognised on the balance sheet which have been pledged as collateral against an existing liability, and as a result are assets which are unavailable for us to secure funding or be sold to reduce potential future funding requirements.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to an borrowers financial difficulties.
Financial services compensation scheme ('FSCS')	The statutory deposit insurance and investors compensation scheme for customers of UK authorised banks, building societies and credit unions. The scheme protects up to £85,000 per depositor in the event of the firms insolvency.
Internal Capital Adequacy Assessment Process ('ICAAP')	Our own assessment, based on Basel II requirements, of the levels of capital that we need to hold in respect of our regulatory capital requirements.
Internal Ratings-Based approach ('IRB')	A methodology of estimating the credit risk within a portfolio by utilising internal risk parameters to calculate credit risk regulatory capital requirements. There are two approaches to IRB: Foundation IRB and Advanced IRB.
Loss given default ('LGD')	The estimated loss which will arise if a customer defaults. It is expressed as a percentage considering expected recoveries on defaulted accounts.
Partially Exemption Special Method ('PESM')	A special method is a calculation agreed with HMRC which is different to their standard method. It enables us to calculate how much input value added tax ('VAT') we may recover.
Probability of default ('PD')	The likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts).
Regulatory leverage ratio	The ratio of our common equity tier 1 capital (see above) compared to our total assets.
Risk weighted assets ('RWA')	A measure of our assets adjusted for their associated risk. Risk weightings are applied in accordance with the Basel Capital Accord as implemented by the Prudential Regulation Authority ('PRA').
Term funding scheme ('TFS')	A scheme implemented by the Bank of England which provides funding to banks and building societies at rates close to Base Rate. It is designed to encourage lenders to reflect cuts in Base Rate in the interest rates faced by households and businesses.

ALTERNATIVE PERFORMANCE MEASURES (UNAUDITED)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles ('GAAP') under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which are commonly used within the banking industry.

These alternative performance measures have been defined below:

Cost of risk

Impairment charges net of debt recoveries divided by simple average gross loans for the year.

	2018 £'million	2017 £'million
Credit impairment charges	n/a	8.2
Expected credit loss expense	8.0	n/a
Average gross lending	12,005	7,587
Cost of risk	0.07%	0.11%

Cost of deposits

Interest expense (excluding interest on FLS, TFS and repos) divided by the average deposits from customers for the year.

	2018 £'million	2017 £'million
Interest expense	114.3	61.0
Interest on FLS, TFS and repos	(23.4)	(7.0)
Interest on debt securities	(7.2)	–
Customer interest expense	83.7	54.0
Average deposits from customer	13,610	9,785
Cost of deposits	0.61%	0.54%

Loan-to-deposit ratio

Loans and advances to customer expressed as a percentage of total deposits. It is a commonly used ratio within the banking industry to assess liquidity.

	2018 £'million	2017 £'million
Loans and advances to customers	14,235	9,620
Deposits from customer	15,661	11,669
Loan-to-deposit ratio	91%	82%

Net interest margin ('NIM')

Net interest income as a percentage of average interest-earning assets.

	2018 £'million	2017 £'million
Net interest income	330.1	241.0
Average interest-earning assets	18,279	12,466
Net interest margin ('NIM')	1.81%	1.93%

Customer deposit net interest margin ('Customer NIM')

Reflecting the interest return from the investment of our customer deposits.

	2018 £'million	2017 £'million
Net interest income	**330.1**	241.0
Adjustments for customer net interest income:		
Plus interest expense on Term Funding Scheme ('TFS')	**22.7**	5.4
Plus interest expense on repurchase agreements	**0.7**	1.6
Plus interest expense on debt securities	**7.2**	–
Less interest income on investment securities	**(79.2)**	(56.9)
Plus return on deposits not lent[1]	**18.9**	23.7
Net customer interest income	**300.4**	214.8
Average deposits from customers	**13,610**	9,785
Customer net interest margin ('Customer NIM')	**2.21%**	2.19%

1. Calculated as treasury liquidity yield x (average customer deposits less average loans)

Underlying profit before tax

Underlying profit before tax represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons in order to provide readers with a better and more relevant understanding of the underlying trends in the business. A reconciliation from statutory profit before tax to underlying profit before tax is set out below.

Where underlying profit before tax is reported for a quarter, the underlying profit before tax also excludes the impact of the FSCS levy due to the timings of this charge.

	2018 £'million	2017 £'million
Statutory profit before tax	**40.6**	18.7
Add back:		
Listing Share Awards	**0.8**	1.4
Costs relating to RBS alternative remedies package application	**3.8**	0.1
Impairment of property, plant and equipment and intangible assets	**4.8**	0.6
Underlying profit before tax	**50.0**	20.9

Underlying earnings per share (basic and diluted)

Underlying profit divided by the weighted average number of basic/diluted shareholders as disclosed in note 30.

We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.

SHAREHOLDER INFORMATION

Registered and other offices

The Company's registered office and head office is:

One Southampton Row
London
WC1B 5HA

Telephone: 0345 08 08 500/0345 08 08 508
Website: www.metrobankonline.co.uk

Other subsidiaries of the Company are also registered at the same registered office and head office of the Company.

Registrars

The Company has appointed Equiniti Limited to maintain its register of members. Shareholders should contact Equiniti using the details below in relation to all general enquiries concerning their shareholding:

Equiniti Limited[1]
Aspect House
Spencer Road
Lancing, West Sussex BN99 6DA
Telephone: 0371 384 2030[2]
International callers: +44 121 415 7047

1. Equiniti Limited and Equiniti Financial Services Limited are part of the Equiniti group of companies. Company share registration, employee scheme and pension administration services are provided through Equiniti Limited, which is registered in England and Wales with No. 6226088. Investment and general insurance services are provided through Equiniti Financial Services Limited, which is registered in England and Wales with No. 6208699 and is authorised and regulated by the UK Financial Conduct Authority.
2. Lines are open from 8.30 to 5.30pm (UK time) Monday to Friday, excluding public holidays in England and Wales.

2019 Financial Calendar

Annual General Meeting – 21 May 2019
First quarter results – 1 May 2019
Half year results – 24 July 2019
Third quarter results – 23 October 2019

These are preliminary dates and may be subject to change.

Unsolicited mail

The Company is required by law to make its share register available on request to unconnected organisations. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. If you wish to limit the amount of unsolicited mail received, please contact the Mailing Preference Service, an independent organisation whose services are free for consumers.

Further details can be obtained from:
Mailing Preference Service
MPS Freepost LON 20771
London
W1E 0ZT
Website: www.mpsonline.org.uk

Annual General Meeting

The Company's next Annual General Meeting will take place on 21 May 2019 at the Bank's registered office address at One Southampton Row, London WC1B 5HA, at 1:30pm. The Chairmen of each of the Board's Committees will be present to answer questions put to them by shareholders.

The Annual General Meeting gives shareholders an opportunity to hear about the general development of the business and to ask questions of the Chairman and the Chairmen of the various Committees.

Foreward looking statements

This annual report contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as 'believes', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'may', 'will', 'would', 'could' or 'should' or similar terminology. Any forward-looking statements in this annual report are based on the Company's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance.

No assurances can be given that the forward-looking statements in this annual report will be realised. The Company undertakes no obligation to release the results of any revisions to any forward-looking statements in this annual report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and the Company disclaims any such obligation.

Shareholder profile by size of holding as at 31 December 2018

Range	Total number of holdings	Percentage of holders	Total number of shares held at 31 December 2018	Percentage of total
1–1,000	194	36.00%	56,002	0.06%
1,001–5,000	82	15.30%	199,174	0.20%
5,001–10,000	53	9.89%	398,606	0.41%
10,001–50,000	104	19.40%	2,355,770	2.42%
50,001–100,000	34	6.34%	2,470,508	2.54%
100,001–500,000	42	7.84%	9,959,403	10.22%
500,001–1,000,000	12	2.24%	8,145,602	8.36%
1,000,001 and above	16	2.99%	73,833,372	75.79%
Total	537	100.00%	97,418,437	100.00%

Shareholder profile by category as at 31 December 2018

Category	Number of holders	Percentage of holders within type	Shares held at 31 December 2018	Percentage of issued share capital
Private shareholders	142	26.44%	2,243,515	2.30%
Banks	3	0.56%	10,210	0.01%
Nominees and other institutional investors	392	73.00%	95,164,712	97.69%
Total	537	100.00%	97,418,437	100.00%

It should be noted that many private investors hold their shares through nominee companies and therefore the percentage of shares held by private shareholders may be higher than that shown.

10 NEW LOCATIONS IN 2018

Piccadilly

Northampton

Bristol

Crawley

Watford

Bath

Ashford

Putney

Oxford

Southampton

66 STORES*

* Including our Moorgate store, opened in January 2019

METRO BANK PLC

metrobankonline.co.uk