Pillar 3 Disclosure

31st December 2017

Contents

1. Introduction

The European Union Capital Requirements Directive came into effect on 1 January 2007 and was implemented in the UK by the Financial Services Authority (‘FSA’). This introduced consistent capital adequacy standards governing how much capital banks must hold to protect their depositors and shareholders, and an associated supervisory framework in the EU based on the Basel II Accord.

The European Union (‘EU’) implemented the Basel III proposals published in December 2010 through the Capital Requirements Regulation (‘CRR’) and Capital Requirements Directive (together referred to as ‘CRD IV’) which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority (‘PRA’). The rules include disclosure requirements known as ‘Pillar 3’ which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

The Basel framework consists of three pillars:

- Pillar 1: Defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.
- Pillar 2: This builds on Pillar 1 and incorporates the Bank’s own assessment of additional capital resources needed in order to cover specific risks faced by the institution that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process (‘SREP’) and is used to determine the overall capital resources required by the Bank.
- Pillar 3: Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

2. Scope

Metro Bank plc is a UK registered bank that is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. The Bank does not have any joint ventures but does have a subsidiary, SME Invoice Finance (SMEIF), which was acquired in August 2013. All banking and SMEIF activities are collectively shown through the Bank’s financial accounts. The Bank is listed on the London Stock Exchange.

This Pillar 3 report is based upon the Bank’s Financial Statements for the year ended 31st December 2017.

Basis and frequency of disclosures

This document sets out the 2017 Pillar 3 Disclosures for the Bank. The purpose of these disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of risks faced by the bank. This is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8). The disclosures may differ from similar information in the Annual Report and Accounts prepared in accordance with International Financial Reporting Standards (‘IFRS’); therefore, the information in these disclosures may not be directly comparable with that information.

Unless otherwise stated, all figures are as at 31/12/2017, the Bank's financial year end, with comparative figures for 31/12/2016 where relevant. Pillar 3 Disclosures are published annually, and concurrently with or subsequently to the Annual Report and Accounts.

2.1 Changes to disclosure requirements

The bank continues to develop the quality and transparency of disclosures to ensure that they are as clear and informative as possible.

There have been several changes since the 2016 report, including; additional tables detailing credit risk in section 7.1, exposures to securitisations in section 7.3, counterparty credit risk in section 7.4, and asset encumbrance in section 15.5.

3. Risk Management

3.1 Risk Management Objectives

The core objective for Metro Bank is the effective management of risk to protect depositors, borrowers, shareholders and to ensure the Bank has adequate capital and liquidity resources.

Given the nature of the activities undertaken, the principal risks faced are credit risk, market risk, liquidity risk, interest rate risk, conduct risk, regulatory risk, financial crime risk, operational risk, and strategic risk. Each risk has a defined risk appetite which is supported though documented policies and overseen by a robust governance process.

The risk management framework is outlined below, indicating the relevant governance structure and control process.

3.2 Principal Risks

The principal risks are:

- **Credit Risk -** the risk of financial loss due to an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed. The Bank has detailed lending policies to ensure credit risk-taking is based on sound credit risk principles, including sector and concentration limits.
- **Market Risk -** the risk that earnings or the economic value of equity will under-perform due to changes in interest rates, foreign exchange rates, or other financial market asset prices. Our ability to manage market risks contributes to our overall capital management.
- **Liquidity Risk -** the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time. The bank has assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and an appropriate liquidity buffer is maintained at all times.
- **Interest Rate Risk -** the risk of loss through mismatched asset and liability positions sensitive to changes in interest rates. Where possible the bank seeks to match the interest rate structure of assets with liabilities, creating a natural hedge.
- **Conduct Risk** - the risk of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.

- **Regulatory Risk** - the risk of financial loss or reputational damage due to regulatory 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.
- **Operational Risk** - the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events.
- **Financial Crime Risk** – The risk of financial loss or reputational damage resulting from internal or external fraud, money laundering, counter terrorist financing, bribery and corruption, or non-compliance with Sanctions.
- **Strategic Risk** – Strategic risk is the risk that Metro Bank fails to achieve business objectives because of a failure to maintain its unique culture; maintain its differentiated model through delivering unparalleled levels of service and convenience; or develop the products, capabilities, and competitive position necessary to attract new customers and compete effectively.

The principal risks are covered in more detail below.

3.3 Risk Management

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

3.4 Risk Appetite

Risk appetite is set by the Board, based on the recommendation of the Risk Oversight Committee, and implemented by the Executive Risk Committee. Performance against risk appetite is monitored and reported on a monthly basis to the Board and at least quarterly to the Risk Oversight Committee. The CRO is responsible for ensuring the bank operates within the agreed risk appetites.

Credit Risk Appetite
The Bank aims to have a well-balanced loan portfolio, through the economic cycle, that weighs risk and reward appropriately in lending decisions. The Bank has detailed lending policies to ensure credit risk-taking is based on sound credit risk principles. The policies and limits are monitored on a monthly basis. The Bank is also mindful of and measures concentration risk, loan arrears and bad debts. For quantification of credit risk, Metro Bank currently uses the Standardised Approach assessed under Basel III, Pillars 1 and 2.

Market Risk Appetite
The Bank minimises earnings shocks or surprises. The Bank does not undertake proprietary trading activities and only holds highly-rated investment securities. Management monitors exposures to price risk and movements in investment value on a regular basis.

Liquidity Risk Appetite
The Bank aims to hold a prudent level of liquidity to cover unexpected outflows such that it would be able to meet its financial commitments for an extended period. The Bank assesses the level of liquidity

necessary to cover both systemic and idiosyncratic risks and an appropriate liquidity buffer is maintained at all times. The Bank also maintains a balance sheet structure that limits reliance on potentially volatile sources of funding. Whilst it has regard to the liquidity coverage ratio (LCR), the Bank also uses its own internal measures of liquidity including a survival horizon calculation.

Interest Rate Risk Appetite

The Bank aims to minimise interest rate risk and has a policy to ensure that assets are matched with liabilities of a comparable interest basis. The bank is prepared to accept a change in economic value of the balance sheet of no more than £20 million, given a 2% adverse change in interest rates across the yield curve. It also maintains limits against earnings sensitivity and basis risk to a £15 million limit. Additional interest rate scenarios, incorporating non-parallel changes to interest rates, are also evaluated and monitored, to capture risks not necessarily picked up by the policy measures.

Conduct Risk Appetite

The Bank has no appetite for unfair customer outcomes. The Bank provides customers with simple, fairly priced products delivered with unparalleled levels of service and convenience.

Regulatory Risk Appetite

We comply with the relevant rules, regulations and sourcebooks, and have no appetite for material regulatory breaches. The Bank has policies and procedures in place to ensure compliance with the regulatory obligations, and robust oversight and monitoring to evidence compliance. The Bank regularly engages with the PRA, the FCA, and other industry bodies to proactively manage this risk.

Financial Crime Risk Appetite

We comply with all relevant rules, regulations, industry guidance and sourcebooks, and have no appetite for material regulatory breaches. The Bank has policies and procedures in place to ensure compliance with the regulatory obligations, and robust oversight and monitoring to evidence compliance and effective risk management. The Bank regularly engages with external industry forums and engages with government bodies such as the Home Office, HMRC, the FCA and law enforcement to manage risks proactively.

Operational Risk Appetite

The Bank aims to maintain robust operational systems and controls and seeks to maintain a low level of operational risk. The Bank has 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.

The Bank has adopted the Basic Indicator Approach to Operational Risk.

3.5 Risk Management Framework

Risk Management Framework

Metro Bank's risk management framework is outlined below, setting out the relevant governance and control structure for each of the principal risks.

	Risk Management Framework						
Principal risk:	Credit	Operational	Liquidity	Market & Interest rate	Financial Crime	Regulatory	Conduct
Control document:	Credit policy	Enterprise Risk Management policy	Liquidity policy Treasury & large exposures policy	Treasury Instruments and Dealing Policy Market risk policy	Anti-money laundering policy Sanctions policy	Compliance policy	Treating Customers Fairly policy
Risk reporting:	Credit Risk and Analytics reports	Operational Risk Reports	Assets & Liabilities Committee (ALCO) and Treasury Reports	Assets & Liabilities Committee (ALCO) and Treasury Reports	Anti Money Laundering Steering Group reports	Regulatory Risk reports	Conduct and Voice of the Customer reporting
Monitoring Committee:	Credit sanctioning Committee Credit Risk, Policy and Appetite Executive Risk Committee	Enterprise Risk Committee	Assets & Liabilities Committee	Assets & Liabilities Committee	Enterprise Risk Committee	Enterprise Risk Committee	Enterprise Risk Committee
Oversight Committee:	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee

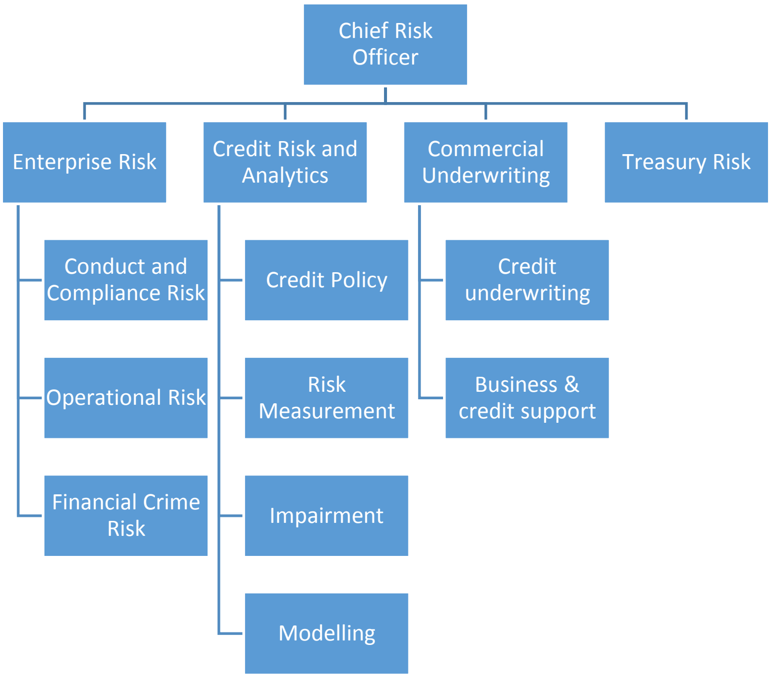
All key risks have been considered in detail as part of the capital adequacy assessment and are documented in the Internal Capital Adequacy Assessment Process (ICAAP) document, which is approved by the Board. Liquidity risk is specifically considered in the annual Individual Liquidity Adequacy Assessment Process (ILAAP) paper, which is also approved by the Board. Operational risk is managed through the Enterprise Risk Management Policy and Business Risk & Control Assessments.

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

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

3.6 Risk Oversight, Monitoring and Reporting

Metro Bank has a Chief Risk Officer (CRO) who is responsible for ensuring each risk is identified, monitored and mitigated. Through the Risk function, the CRO is responsible for providing oversight of each of the key risks described above and independent assurance to the Board and the Directors that the principal risks are appropriately managed and that the Bank is operating within risk appetite.



The risk management function is independent from the operational side of the Bank. It is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust.

The risk management function provides periodic independent reports on risk positions, risk management and performance against the risk appetite statements. Risk reports are provided to the Credit Risk, Policy and Appetite Committee, the Executive Risk Committee, the Asset & Liability Committee, the Risk Oversight Committee and the Board.

The reporting and oversight process is designed to ensure the committees which form the governance structure are aware of key risks and that there are adequate and effective controls in place for these risks.

3.7 Risk Governance Structure

The responsibility for managing the principal risks ultimately rests with the Bank's Board of Directors. The Bank's governance structure is outlined below.

3.8 Committee Structure

This section outlines the details of the Board and principal committees which enable high-level oversight to be exercised in relation to the Bank's activities. The frequency of meetings is detailed below, although it is expected that these committees will meet more frequently as circumstances require.

Board

The Board is the primary governing body and has ultimate responsibility for setting the Bank's strategy, corporate objectives and risk appetite. The strategy and risk appetite take into consideration the interests of stakeholders including depositors, customers and shareholders.

The Board specifically approves the level of risk which the Bank is willing to accept to ensure there is an adequate framework in place for the reporting and management of those risks. The Board is responsible for maintaining a sufficient control environment to manage the principal risks, and is responsible for ensuring the capital and liquidity resources are adequate to achieve the Bank's objectives without taking undue risk.

The Board also maintains close oversight of current and future activities, through a combination of monthly board reports including financial results, operational reports, budgets and forecasts and periodic reviews of the main risks set out in the ICAAP and ILAAP documents.

The Board comprises nine non-executive directors, including the Chairman, and two executive directors and meets monthly.

Metro Bank PLC has four Board Committees: the Risk Oversight Committee, the Audit Committee, the Nominations Committee and the Remuneration Committee.

Board Committees

Audit Committee

The Board has delegated responsibility for reviewing the effectiveness of the Bank's internal controls to the Audit Committee. The Committee meets at least five times a year and monitors and considers the internal control environment focusing on operational risks, internal and external audits and compliance matters.

The Committee is chaired by a Non-Executive Director, and comprises a further three non-executive Directors. The Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer and the Head of Internal Audit also attend, along with other invited colleagues.

The Committee:

- Monitors the integrity of the financial statements of the Bank, reviewing significant financial reporting issues and any judgements which they contain.
- Monitors and reviews the effectiveness of the Internal Audit function and approve the appointment or removal of the Head of Internal Audit.

- Oversees the relationship with the External Auditor including reviewing the engagement terms and fees, monitoring their independence and quality control as well as the audit findings, management letter and audited accounts.

The Chair of the Audit Committee meets with both Internal and External Audit privately on a regular basis throughout the year.

Risk Oversight Committee (ROC)

The ROC assists the Board in providing leadership, direction, and oversight with regard to the Bank's risk governance and management, and also assists the Board in fostering a culture within the Bank that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. The Committee meets at least five times a year, and works closely with the Audit Committee.

The Committee is chaired by a Non-Executive Director, and comprises a further two Non-Executive Directors. The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer also attend, along with other invited colleagues.

The Committee:

- Recommends to the Board the Bank's risk appetite and regularly reviews the Bank's risk exposures in relation to the risk appetite;
- Reviews the Bank's risk policies, and approves or recommends to the Board for approval; and
- Monitors the effectiveness of the Bank's risk management processes and procedures;
- Monitors the model risk and the appropriateness of the model governance.

The Chair of the ROC meets with the Chief Risk Officer and other senior leaders of the Bank on a regular basis throughout the year to discuss risk management and control activity. The CRO has access to and a dotted reporting line into the Chair of the ROC.

Nominations Committee

The Committee:

- Assists the Board in reviewing the structure, size and composition of the Board.
- Reviews succession plans for the Directors, including the Chairman and the CEO and other senior executives

The Committee is chaired by a Non-Executive Director, and comprises a further three Non-Executive Directors. The Chief Executive Officer has a standing guest invitation and the Chief People Officer also attends. The Nomination Committee meets not less than twice per year.

Remuneration Committee

The Committee:

- Determines the overall remuneration policy for all colleagues, and in particular the policy and the level of remuneration of Code staff which includes Executive Directors.
- Provides an oversight of best practice in the external market place.

The Committee is chaired by a Non-Executive Director, and comprises a further two Non-Executive Directors. The Chief Executive Officer has a standing guest invitation and the Chief People Officer also attends. The Remuneration Committee meets not less than twice per year.

Chief Executive Management Committees

The Chief Executive, supported by the Executive Management Team, is responsible for executing the strategy of Metro Bank and making decisions and recommendations to the Board, as appropriate, via the following committees:

- Asset and Liability Committee (ALCO)
- Executive Risk Committee
- Credit Sanctioning
- Credit Risk, Policy and Appetite
- Executive Committees

Asset & Liability Committee:

The Board has delegated responsibility for managing and overseeing the Bank's exposure to liquidity, interest rate and market risk to ALCO and reports through to and into ROC. ALCO meets monthly and is responsible for ensuring that:

- An appropriate balance is maintained between funding and lending activities, ensuring that the Bank meets internal liquidity targets as set out in the Liquidity Policy.
- Analysis of Financial Market trends is considered along with actual and projected business performance to assess the adequacy of funding to meet the projected targets.
- All pricing decisions are agreed at the ALCO to ensure absolute visibility of trading, liquidity and market, and capital impact.
- The ALCO is also responsible for monitoring interest rate risk.

It is chaired by the Chief Financial Officer, and attended by the Chief Executive Officer, Chief Commercial Officer, MD Commercial Banking, MD Regional Banking, MD Business and Private Banking, Chief Operating Officer, Chief Risk Officer, and the Treasurer.

Executive Risk Committee

The Committee meets at least 10 times a year and is responsible for:

- Reviewing business performance in relation to risk appetite across conduct, regulatory, financial crime and operational risks.
- Oversight of the operation of the Bank's Enterprise Risk Management framework.
- Oversight of the performance of KRIs.

The Committee is chaired by the Chief Risk Officer. Its membership comprises the Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, MD Commercial Banking, MD Regional Banking, MD Business and Private Banking, Chief Operating Officer, Chief People Officer, Chief Information Officer and the Head of Internal Audit.

Credit Committee

Beyond individual Credit Colleagues' individual Delegate Authority Levels, the principle underpinning the credit decision on larger loan cases is one of a 'roll up' of support. This principle provides comfort that credit approval, for any significant amount, is subject to appropriate oversight while allowing for timeliness of decision-making.

Credit Risk, Policy and Appetite Committee

The Committee meets at least 10 times a year and is responsible for:

- overseeing the Bank's credit risk policies,
- reviewing proposals on risk appetite,
- approving significant exceptions to policy,
- monitoring portfolio performance against the Banks's set risk appetites and, (with the Chief Financial Officer) approving impairment levels,
- Approve material Credit Risk models, monitors the model risk and the governance in place for modelling and validation.

The Committee is chaired by the Chief Risk Officer. Its membership comprises the Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Director of Commercial Credit, Director of Credit Risk and Analytics, MD Commercial Banking, MD Regional Banking and MD Business and Private Banking.

Chief Executive Management Committees

The Chief Executive, supported by the Executive Management Team, is responsible for executing the strategy of Metro Bank and making decisions and recommendations to the Board, as appropriate, via the following committees

Committee	Purpose	Chairperson	Members	Meeting Frequency	Quorum
Credit Sanctioning Committee	The Committee is responsible for: • Sanctioning of higher value lending requests, and any exceptions to policy. • Monitoring the Bank's overdue accounts. • Granting and reviewing delegated lending authorities.	CRO	CEO MD Commercial Banking Director, Commercial Credit (One of the) Heads of Credit (Commercial)	Weekly	CRO or delegate (CCO) plus CEO, MD of Commercial or Head of Credit Commercial
Asset & Liability Committee	The Committee is responsible for: • Ensuring that an appropriate balance is maintained between funding and lending activities • Ensuring that the Bank meets 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. Monitoring interest rate risk.	CFO	CEO MD Regional Banking MD Commercial Banking COO CRO MD, Customer Propositions & Private Banking Treasurer	Monthly	Three members, to include at least two of the CEO, CFO, and CRO

Committee	Purpose	Chairperson	Members	Meeting Frequency	Quorum
Executive Risk Committee	The Committee is responsible for: • Reviewing enterprise, regulatory and compliance risk management issues with regard to the Bank's non-financial risk appetite. • Oversight of the Bank's Enterprise Risk Management framework. • Oversight of the performance of the non-financial KRI's. • Reviewing Audit reports and findings related to non-financial risk. Recommendations for adjustment of non-financial policies to the Board.	CRO	CEO MD Regional Banking MD Commercial Banking COO CFO CPO MD Customer Propositions & Private Banking CIO	Monthly	Chairperson or CEO, together with any two members
Credit Risk, Policy and Appetite Committee	The Committee is responsible for: • Reviewing the credit risk profile of each portfolio and monitor the Credit risk profile of the Bank. • Reviewing credit risk and impairment for new acquisitions. • Reviewing all policies relating to the Metro Bank lending book on a rolling basis prior to presentation to ROC, with appropriate recommendations for approval • Considering and approving risks associated with new lending products, or material alterations to existing lending products. • Reviewing Credit Approval Committee lending mandates at least annually and make appropriate recommendations to ROC. • Reviewing and approving the Metro Bank Credit Risk Appetite Statement ("CRAS") and metrics. • Reviewing and Approving Sector Appetite Criteria as and when they are developed and on an ongoing basis as they evolve. • Approving material models and delegate authority for the approval of non-material models to another committee. The committee shall note the approval of these non-material models. • Monitoring models as determined by the credit risk model policy.	CRO	CEO CFO CCO MD, Commercial Banking MD, Business Banking MD, Regional Banking Director of Credit Risk and Analytics Director of Commercial Credit Underwriting	Monthly	Four members

Executive Management Committees

There are a further six sub-committees which meet separately, as follows:

Committee	Purpose	Chairperson	Members	Meeting Frequency	Quorum
Finance Committee	The Committee is responsible for reviewing performance across actual and forecast • Cost • Income • Capital • Provisions Review of risks and opportunities	CFO	CEO MD Regional Banking MD Commercial Banking COO CRO CPO Director of Change & Innovation	Monthly	Chairperson, together with any two members
Trading Committee	The Committee is responsible for reviewing trading performance across : • Regional Banking • Contact Centres • Private Banking • Operations and IT • Commercial Banking • Digital Channels • Partnerships	MD Customer Propositions & Private Banking	CEO CFO MD Regional Banking MD Commercial Banking COO CRO CPO Director of Change & Innovation	Monthly	Chairperson or CEO, together with any two members
Voice of the Customer Committee	The Committee is responsible for providing direction on actions required to ensure Metro Bank delivers Amazing customer service and consistently fair customer outcomes. It reviews performance against key customer metrics: • Magic Shop reviews • Expressions of Dissatisfaction • Customer Satisfaction Guarantees • Net Promoter Scores • MI and Reporting of EoD root cause analysis, and actions taken	MD Customer Propositions & Private Banking	CEO CFO MD Regional Banking MD Commercial Banking COO CRO CPO Director of Change & Innovation	Monthly	Chairperson or CEO, together with any two members

Committee	Purpose	Chairperson	Members	Meeting Frequency	Quorum
Voice of the Colleague (Culture) Committee	The Committee is responsible for embedding and strengthening our unique culture, through people interventions, and for reviewing the performance of key colleague metrics. Specific areas include: • "Voice of the Colleague" metrics (colleague engagement scores) • Training and development strategies • Succession planning and talent interventions • Colleague communications • Amaze(ing) Review ratings and performance calibration • Our approach to total reward Insight from key HR Data and the actions needed	CPO	CEO CFO MD Regional Banking MD Commercial Banking COO CRO MD Customer Propositions & Private Banking Director of Change & Innovation	Monthly	Chairperson or CEO, together with any two members
Audit Management Committee	The Committee is responsible for: • Providing an update to the executives on activities of internal audit (progress against audit plan). • Updating outstanding audit findings, including any requests from external stakeholders.	Director of Internal Audit	CEO, CFO, COO, CRO, CPO MD Regional Banking MD Commercial Banking MD Customer Proposition and Private Banking Director of Change & Innovation Director of Internal Audit	Monthly	Chairperson or CEO, together with any two members
Change & IT Committee	The Committee is responsible for: • Change ELT, Chaired by the CIO. This body ensures the combination of the Pillars deliver the change activities to Time, Cost, Quality thus enabling agreed benefits are achieved as per the Business Cases. It is the escalation point for all Financial and Delivery Risk • The IT ELT chaired by the CIO. This body is responsible for reviewing performance across IT run, maintain and build. It is also an escalation point for IT & Cyber risk. IT ELT Also provides executive oversight across the IT Resilience programme.	CIO	CEO CFO MD Regional Banking MD Commercial Banking COO CRO CPO CIO Director of IT Strategy and Architecture Director of Applications Direction of infrastructure and Operations Director of Change & Innovation Head of IT Governance & Risk	Monthly	Chairperson or CEO, together with any two members

4. Capital Resources

As at 31 December 2017, the Bank's capital base was made up of £897m of Tier 1 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA Handbook and CRR, and audited reserves.

4.1 Capital Resources

Capital resources based on audited annual accounts is as follows:

Capital Resources	2017	2016
	£m	£m
Share Capital/Premium	1,304	1,028
Retained Earnings*	-219	-230
Available for Sale reserve	-4	-3
Other reserves	16	11
Intangible Assets	-148	-92
Net Deferred Tax Assets/Deferred Tax Liabilities	-51	-61
CET1 Capital	897	652
Tier 1 Capital	897	652
Total Capital Resources	897	652

During the year Metro Bank raised £275m of CET1. In July 2017, we issued 8.02 million ordinary shares of 0.0001p each, for consideration of £278 million. Related transaction costs of £2.9 million has been deducted from equity.

5. Leverage ratio

CRD IV requires firms to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets, as well as certain off balance sheet exposures. The purpose of monitoring and managing this metric is to enable regulators to limit the build-up of excessive leverage, which was considered to be one of the drivers of the banking crisis.

The Bank's leverage ratio at 31 Dec 2017 was 5.5% (2016: 6.5%) and was above the regulatory minimum of 3% at all times during 2016.

The Leverage Ratio is calculated as Tier 1 capital / total exposures, defined as:

- Capital: Tier 1 capital defined according to CRD IV on an end point basis (assuming the full impact of CRD IV requirements on Tier 1 capital were in force with no transitional provisions)
- Exposures: total on and off balance sheet exposures (subject to credit conversion factors) as defined in the Delegated Act amending CRR article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

The tables below provide more details on the components of the exposure measure used to calculate the Bank's leverage ratio, disclosed in accordance with the templates prescribed by the EBA:

5.1 Leverage Ratio Common Disclosure

Leverage Ratio Calculation	£m	£m
	2017	**2016**
Common Equity Tier 1	897	652
Total Assets (less asset amounts deducted in determining Tier 1 capital)	16,268	9,904
Pipeline Lending exposure	178	78
Forward contracts & FX Mismatch	3	22
Total Exposure	16,450	10,004
Regulatory Leverage Ratio	5.5%	6.5%

The minimum requirement for the leverage ratio is currently 3%.

6. Capital Adequacy

The Bank's capital adequacy was in excess of the minimum required by the regulators at all times.

Risk Weighted Assets - Pillar 1	**£m 2017**	**£m 2016**
Credit risk - Standardised Approach (SA)	5,020	2,959
Counterparty credit risk	0	0
Securitisation exposures in banking book	626	494
Market risk	2	1
Operational risk	234	136
Total risk weighted assets	**5,882**	**3,590**
CET1 Capital Ratio	15.25%	18.16%
Tier 1 Capital Ratio	15.25%	18.16%
Total Capital Ratio	15.25%	18.16%

6.1. Pillar 1

The Bank uses the Standardised Approach for credit risk – and is applying to use the Advanced IRB approach during 2018 – and the Basic Indicator Approach for operational risk. Under Basel III, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its Pillar 1 capital requirements.

6.2. Pillar 2

The Bank must also set aside additional Pillar 2 capital to provide for additional risks. The PRA gives Individual Capital Guidance (ICG) to the Bank detailing the additional capital required.

As part of the Pillar 2 approach to capital adequacy, the Board is required to consider all material risks which the firm faces and to determine whether additional capital is required in order to provide additional protection to depositors and borrowers, and to ensure the Bank is sufficiently well capitalised to withstand a severe economic downturn. These assessments are documented in the Bank's ICAAP and reviewed by the PRA as part of the SREP. The PRA then sets the capital planning buffer that the Bank should hold, but which is available for use should adverse circumstances materialise that are outside its normal and direct control.

The purpose of the ICAAP is to set out how Metro Bank identifies and manages the key risks to which it is exposed and to detail Metro Bank's capital requirements, capital resources, and capital adequacy over the planning period.

The Bank is required to maintain a certain level of capital to meet several requirements:

- To meet minimum regulatory capital requirements and to ensure the Bank operates within its risk appetite.
- To ensure the Bank can meet its objectives, including growth objectives.
- To ensure the Bank can withstand future uncertainty, such as a severe economic downturn.
- To provide a level of comfort and protection to depositors, customers, shareholders and other third parties.

The Bank produces regular reports on the current and forecasted level of capital, as well as the results of stress scenarios, to the Board and to the Risk Oversight Committee (chaired by a NED) and the Executive Risk Committee (chaired by the CRO).

The key assumptions and risk drivers used to create the ICAAP are regularly monitored and reported, and any material deviation from the forecast and risk profile of the Bank will mean the ICAAP will need to be updated.

The principal risks which are considered as part of the ICAAP are detailed in section 7 below.

6.3. Capital Buffers

In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be utilised to absorb losses in stressed conditions.

Under Pillar 2B the PRA has set a PRA Buffer defining a minimum level of capital buffer over and above the minimum regulatory requirement that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. This buffer is firm specific, and the PRA requires that the level of this buffer is not publicly disclosed.

The PRA Buffer is assessed alongside other capital buffers, as described below. All buffers must be met with CET1 resources.

Capital conservation buffer

The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. As of 31 December 2017, the capital conservation buffer was 1.25%. The level of this buffer will be phased in in increments of 0.625% per annum to reach the end-point requirement of 2.5% of RWAs in 2019.

Countercyclical capital buffer (CCyB)

The CCyB requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.
The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate for credit exposures located in the UK. As of 31 December 2017 the UK CCyB was set to 0%. The FPC has indicated that this rate will rise to 0.5% in June 2018 and to 1% in November 2018.

G-SII buffer

Financial institutions that are considered to represent a higher risk to the global financial system, based on a number of key factors, are defined as globally systemically important institutions (G-SIIs). G-SIIs are categorised into buckets based on size, interconnectedness, substitutability, complexity and global activity. As a result of its bucket allocation, each G-SII's capital requirement is determined from within the range of 1% to 2.5% of RWAs.

Metro Bank does not currently meet the definition of a G-SII so this buffer is not applicable.

7. Principal Risks: Credit Risk

Credit risk is the risk of principal loss in the event of defaulting mortgage and loan contracts and is the most significant risk incurred by the Bank. Credit risk arises from the Bank's loan book but can also arise from other off balance sheet activities. However, the Bank does not trade in financial instruments.

Credit risks associated with lending are managed through the use of detailed lending policies which outline the Bank's approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Bank maintains a dynamic approach to credit risk management, and will take necessary steps if the credit performance deteriorates due to economic or sector-specific weaknesses. This (approach to deteriorating credit performance) is specifically undertaken by the Business & Credit Support team (as detailed on P6)

The Director of Credit Risk and Analytics is responsible for development and oversight of the lending policies, and for ongoing monitoring and analysis of portfolio performance within policy and, therefore, against risk appetite thresholds (including concentration limits). The Credit Risk and Analytics team also performs periodic stress tests, using a range of macro and micro economic data to assess the resilience of the lending portfolios to a range of external shocks.

The Director of Commercial Credit has responsibility for commercial underwriting and lending reviews for the key aspects of the lending portfolio. The Director also provides mentoring and business support, covenant monitoring, credit committee management, case credit grading and credit training delivery. The Bank also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and limiting exposures on larger loans, certain sectors and other factors which can represent higher risk. The Bank also seeks to obtain security cover and where appropriate personal guarantees from borrowers.

The Business & Credit Support team (as detailed on Page 6) provide work-out and close monitoring for exposures where there is a risk payment will not be achieved in full and in line with the conditions of the loan.

Each business area has its own lending policy and a dedicated team which assesses credit risk, supported by a Head of Credit having oversight of lending activities. Further information is given below regarding the different lending areas.

The Risk team, Credit Sanctioning Committee, Credit Risk, Policy and Appetite Committee and Risk Oversight Committee have oversight responsibility for credit risk; and credit assurance reviews are conducted by Internal Audit, the outputs of which are reported to the Audit Committee.

7.1 Credit Risk Exposures

The Bank uses the standardised approach in determining the appropriate level of capital to be held for regulatory purposes.

The numerical disclosure below shows the total amount of exposures analysed by different type of exposure classes, as follows:

Exposures subject to the Standardised Approach	£m Exposure Value 2017	£m RWA 2017	£m Capital Required 2017
Central governments or central banks	2,375	0	0
Institutions	112	22	2
Corporates	602	548	44
Retail	742	485	39
Secured by mortgages on immovable property	8,512	3,316	265
Covered bonds	317	32	3
Short-term claims on institutions and corporate	249	120	10
Securitisation Position	3,025	626	50
Exposure at default	53	58	5
Other items	462	439	35
Total	**16,450**	**5,646**	**452**

Exposures subject to the Standardised Approach	£m Exposure Value 2016	£m RWA 2016	£m Capital Required 2016
Central governments or central banks	652	0	0
Institutions	63	13	1
Corporates	386	320	26
Retail	578	379	30
Secured by mortgages on immovable property	5,463	1,748	140
Covered bonds	295	30	2
Short-term claims on institutions and corporate	301	135	11
Securitisation Position	2,382	494	40
Exposure at default	16	19	2
Other items	342	316	25
Total	**10,478**	**3,454**	**276**

Please note the exposure classes have been revised in the 2017 Pillar 3 to bring this in line with the asset breakdown per the Credit Risk Standardised Approach. 2016 amounts have been restated on the same basis for comparative purposes.

7.1.1 Geographic distribution of credit risk exposures

The credit risk exposures as at 31 December 2017 and 31 December 2016 by geographical breakdown are as follows:

Standardised Credit Risk	£m UK 2017	£m North America 2017	£m Other European Countries 2017	£m Rest of the World 2017	£m Total 2017
Central governments or central banks	2,316	59	0	0	2,375
Institutions	112	0	0	0	112
Corporates	576	0	0	25	602
Retail	740	0	0	1	742
Secured by mortgages on immovable property	8,459	0	4	48	8,512
Covered bonds	317	0	0	0	317
Short-term claims on institutions and corporate	120	47	6	76	249
Securitisation Position	3,006	19	0	0	3,025
Exposure in default	53	0	0	0	53
Other items	462	0	0	0	462
Total	**16,163**	**125**	**11**	**151**	**16,450**

Standardised Credit Risk	£m UK 2016	£m North America 2016	£m Other European Countries 2016	£m Rest of the World 2016	£m Total 2016
Central governments or central banks	618	34	0	0	652
Institutions	63	0	0	0	63
Corporates	349	0	0	37	386
Retail	576	0	0	1	578
Secured by mortgages on immovable property	5,448	0	4	10	5,463
Covered bonds	295	0	0	0	295
Short-term claims on institutions and corporate	130	49	30	91	301
Securitisation Position	2,382	0	0	0	2,382
Exposure in default	16	0	0	0	16
Other items	342	0	0	0	342
Total	**10,219**	**84**	**35**	**140**	**10,478**

All exposures to individuals outside of the UK are secured on UK property. All other exposures outside the UK are to foreign currency denominated securities that are held for liquidity and interest rate risk purposes.

7.1.2 Residual Contractual maturity of Credit Risk exposures

The table below show Metro Bank's exposures at 31 December 2017 and 31 December 2016 analysed by remaining contractual maturity:

Standardised Credit Risk	£m On demand 2017	£m Up to 12 months 2017	£m 1-5 years 2017	£m 5-10 years 2017	£m More than 10 years 2017	£m Total 2017
Central governments or central banks	2,070	54	251	0	0	2,375
Institutions	111	2	0	0	0	112
Corporates	153	175	76	123	75	602
Retail	315	105	48	103	170	742
Secured by mortgages on immovable property	0	177	556	1,340	6,439	8,512
Covered bonds	0	108	209	0	0	317
Short-term claims on institutions and corporate	0	69	180	0	0	249
Securitisation Position	0	287	2,247	491	0	3,025
Exposure in default	0	11	42	0	0	53
Other items	41	421	0	0	0	462
Total	**2,690**	**1,408**	**3,609**	**2,057**	**6,685**	**16,450**

Standardised Credit Risk	£m On demand 2016	£m Up to 12 months 2016	£m 1-5 years 2016	£m 5-10 years 2016	£m More than 10 years 2016	£m Total 2016
Central governments or central banks	405	0	213	34	0	652
Institutions	63	0	0	0	0	63
Corporates	79	92	52	107	56	386
Retail	226	102	33	75	143	578
Secured by mortgages on immovable property	0	73	321	827	4,242	5,463
Covered bonds	0	44	251	0	0	295
Short-term claims on institutions and corporate	0	0	277	24	0	301
Securitisation Position	0	359	1,603	420	0	2,382
Exposure in default	0	5	11	0	0	16
Other items	26	316	0	0	0	342
Total	**799**	**991**	**2,761**	**1,487**	**4,441**	**10,478**

7.2 Credit Risk – Lending

Credit risk is managed in accordance with lending policies, the risk appetite and risk management framework. Lending policies and performance against risk appetites are reviewed regularly. This section provides further detail on the specific areas where the Bank is exposed to credit risks.

Residential Mortgages

All applications are scored and managed via an origination system that connects the Store and Broker with the underwriting team. All applications above cut off and in line with the credit policy are reviewed by an experienced team of mortgage underwriters who further verify the application. Applications are underwritten in accordance with the residential mortgage lending policy and each loan has to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies, which provide a detailed insight into the applicant's score, credit history and indebtedness, and which is carefully reviewed by the underwriters. During 2017, the Bank built and implemented a new augmented version of the origination score.

The Bank has a conservative approach to lending; it will typically only lend up to up to 90% LTV, and the average LTV of the portfolio is substantially lower at 60% LTV. Metro Bank performs indexed revaluation of the collateral at least on an annual basis.

The Bank offers advice to mortgage borrowers but does not sell payment protection insurance policies, nor any other type of insurance.

Commercial Mortgages

Metro Bank has a conservative approach to underwriting commercial property loans and this has resulted in a portfolio of low LTV loans to good quality borrowers. A team of experienced underwriters carefully reviews all applications.

Properties are individually valued and a detailed report produced to ensure the property is acceptable security and will present minimal problems in the event of default, where the asset has to be recovered and sold. Valuations are performed by highly experienced and qualified external firms. The valuers provide commentary on the tenancy/letting of properties where the commercial mortgages are connected to an investment property transaction.

Affordability assessments are performed on all loans and other forms of security are often obtained, such as a personal guarantee.

Loans to commercial mortgage customers are secured on properties solely located in the UK, principally in the South of England. Concentration risks are closely monitored and credit exposures are well diversified by sector and geography. Regular reviews are performed on loans in the portfolio, with particular attention paid to larger exposures.

Non-performing Loans and Provisioning

The performance of loan assets is monthly monitored. Late payments and arrears cases are reported in detail and reviewed on a regular basis, detailed credit reports are submitted for review to the monthly Credit Risk, Policy and Appetite Committee and to the Risk Oversight Committee on at least a quarterly basis.

Metro Bank maintains a provisioning policy which applies to all lending activities within the Bank, setting out policies relating to impairment. In 2017, the Bank developed and implemented IFRS9 compliant models that allows the calculation of Expected Credit Losses (ECL).

Defaulted agreements are considered to be loans over 90 days in arrears or where there are signs of unlikeliness to pay. The unlikeliness to pay is determined by the collections specialists for mortgages and unsecured exposures and the relationship managers for commercial exposures.

Commercial lending exposures are assessed for individual impairment by the Business & Credit Support Team. Impairment of individual loans is designed to recognise specific risks identified by the bank following the occurrence of a loss event; for example, a commercial customer whose business has gone into administration.

When individual provisions are made an analysis is undertaken to understand the probability of recovery, whether the agreement can be restored to order or, if not, what the recovery is likely to be.

The majority of loans have good security, such as property, and this will lead in most cases to a full or high level of recovery. Any potential shortfall is calculated and this value forms the basis of the specific provision, taking into account the costs of recovery.

At the end of 2017, the Bank held a collective impairment provision of £11.6 million, and provision of £2.8 million against individual loan exposures (2016: £5.7m and £1.8m respectively).

7.3 Credit Risk – Treasury

Liquidity Portfolio and Investments

Credit risk of bank and treasury counterparties is controlled through the Bank's Treasury Instruments and Dealing Policy which limits the maximum exposure by entity where the Bank can deposit or invest. All institutions need a sufficiently high credit rating, as detailed within the Policy.

Metro Bank uses Standard and Poor's (S&P), Moody's and Fitch as External Credit Assessment Institutions (ECAIs). The ratings from these ECAIs are mapped across to the Credit Quality Step requirements in CRR using mappings from the EBA.

The bank also performs stress testing to ensure that its Treasury credit risk exposures are sufficiently robust. Credit proposals are presented by Treasury and challenged by Treasury Risk. Credit limits are approved and monitored by the bank's ALCO.

Purchased Securitisation positions

Metro Bank invests in highly rated securitisation issues in eligible, established asset classes to support regulatory liquidity requirements. In line with the Board's liquidity risk appetite, Treasury Credit Policy restricts investment activity to senior, high quality liquid securities in a small number of established, low risk sectors.

The table below shows the exposure value of purchased securitisations by asset type:

Purchased Securitisation positions	£m Exposure Value 2017	£m Exposure Value 2016
Residential Mortgage Backed Securities	3,025	2,382

7.4 Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to financial derivatives, securities financing transactions and long settlement transactions. The Bank is exposed to counterparty credit risk through derivative transactions.

The Bank uses derivative contracts to manage interest rate risk in the banking book and foreign exchange risk on foreign denominated investments. Policies and contracts are in place to transfer/receive cash collateral when derivative mark to market exposures exceed agreed minimum transfer values, documented under standard ISDA agreements with supporting CSAs. The Bank does not currently clear trades through central counterparties.

The Bank assigns counterparty credit limits based on the credit rating of the counterparty and monitors exposures against these limits on a daily basis. The Bank's exposures to counterparty credit risk are measured under the CRR mark-to-market method, representing the market value of derivative assets plus the potential future exposure.

The calculated exposures are risk weighted under the standardised approach for credit risk. Minimum capital requirements are disclosed within the Bank's disclosures for credit risk (2017: £26k, 2016: £19k).

The other component of counterparty credit risk is the CVA capital charge which is disclosed separately (2017: £15k, 2016 £4k).

CRR Mark-to-market Method	£000's Replacement cost / current market value	£000's Potential Future Credit Exposure	£000's Total Exposure Value	£000's RWA	£000's Capital Requirement
2017	295	1,309	1,604	321	26
2016	795	388	1,183	236	19

Credit Valuation Adjustment

Credit Valuation Adjustment	£000's Total Exposure Value	£000's RWA	£000's Capital Requirement
2017	1,604	188	15
2016	1,183	50	4

Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, occurring when default risk and credit exposure increase together. The Bank is not currently exposed to wrong way risk.

The Bank has no public credit rating. Central counterparties may require additional initial margin to be posted in the event of deterioration of the Bank's credit risk.

The Bank currently has no exposure to credit derivative transactions.

8. Principal Risks: Liquidity Risk

Liquidity risk is the risk that Metro Bank is not able to meet its financial obligations as they fall due.

To protect the Bank and its depositors against liquidity risk the Bank maintains a liquidity buffer. The liquidity buffer is monitored on a daily basis to ensure there are sufficient liquid assets at all times to cover cash flow imbalances and fluctuations in funding and to enable the Bank to meet all financial obligations and to support anticipated asset growth.

Our liquidity position has remained stable over the year with our Liquidity Coverage Ratio ('LCR') remaining strong at 141% (2016: 136%) and we hold excess liquidity over our requirements. Funding risks are well-managed; a number of factors, including the Bank of England's Term Funding Scheme, have resulted in an easing of liquidity conditions compared to 2016.

Through the Individual Liquidity Adequacy Assessment Process (ILAAP), the Bank has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks and the ILAAP determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base.

The ILAAP requires the Bank to consider all material liquidity risks in detail and the ILAAP has documented the Bank's analysis of each key liquidity risk driver. Liquidity risks are specifically considered by the ALCO each month. Further information on key liquidity risks is given below.

Based on the business model of funding via retail deposits, the liquidity risk appetite as set by the Bank is considered appropriate, and provides assurance to the Board that the relevant liquidity risk drivers have been considered and appropriately stressed and that the Bank is able to remain liquid beyond the targeted survival period.

8.1 Liquidity Risk Drivers

This section provides an overview of the Bank's key liquidity risk drivers.

Retail Funding Risk
Retail funding risk is the primary liquidity risk driver for Metro Bank, and this would occur if there was a concern by depositors over the current or future creditworthiness of the Bank. Although the Bank seeks to operate in such a way as to protect depositors, an extremely high proportion of deposits are protected by the Financial Services Compensation Scheme (FSCS), which protects £85,000 of deposits per customer.

Wholesale Funding
Metro Bank does not fund its operations through wholesale markets. However, the bank has back-up access to secured funding ('Repo') lines. The Bank also has relationship banking facilities in place which are used to hedge against currency and interest rate exposures.

Payments Systems
Metro Bank is a direct member of the UK Faster Payments System. Whilst it is not a direct member of CHAPS or BACS, in the event there are problems with one of the payment systems, the Bank has access to payment facilities with which to make payments to cover liabilities when due.

Pipeline Loan Commitments
Metro Bank needs to maintain liquidity to cover the outstanding pipeline of loan offers. Although certain pipeline offers may not be legally binding, the failure to adhere to an expression of intent to finance a loan contract brings reputational risk. Therefore, liquidity is held for offered contracts.

Cash Collateral Requirements
The swap Credit Support Annex (CSA) requires Metro Bank or the swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money. As Metro Bank is unrated, the swap agreements are not credit rating sensitive, which removes the impact from a downgrade risk.

Contingency Funding Plan
As a regulated firm, Metro Bank is required to maintain a Contingency Funding Plan (CFP). The plan involves a two stage process, covering preventative measures and curative measures to be invoked when there is a potential or actual risk to the Bank's liquidity position. The CFP provides a plan for managing a liquidity situation or crisis within the Bank, caused by internal events, external events or a combination thereof. The plan outlines what actions the Bank will take to ensure it complies with the liquidity adequacy rule and operates within its risk appetite and limits, as set and approved by the Board.

9. Principal Risks: Interest Rate Risk

Interest rate risk is the risk of loss through un-hedged or mismatched asset and liability positions sensitive to changes in interest rates. Where possible the Bank seeks to match the interest rate structure of assets with liabilities, or deposits, creating a natural hedge. Where this is not possible Metro Bank will enter into swap agreements to convert fixed interest rate liabilities into variable rate liabilities, which are then matched with variable interest rate assets. Interest rate risk is reviewed by Treasury and Treasury Risk on a daily basis and by ALCO on a monthly basis.

Interest rate risk in the banking book consists of asset-liability interest rate gap risk and basis risk. The bank's interest rate risk exposures are published in the notes to the annual report and accounts.

10. Principal Risks: Market Risk

Metro Bank does not carry out proprietary trading or hold any positions that would require to be regularly marked to market, nor does it have any intention to in the foreseeable future. Any investments in assets are not actively traded. Exposures to FX risk are managed to within a low tolerance to facilitate customer transactions.

The Bank does, however, hold a portfolio of investment securities. Some of these securities are exposed to market price movements should any of the securities be sold. Monthly prices are obtained to ensure the Bank is aware of any material diminution in value, which is reported to ALCO. In the event of a position being downgraded below credit rating thresholds, or other concerns about the credit risk of an investment security, ALCO determines whether to retain that position.

11. Principal Risks: Regulatory Risk

Metro Bank aims to comply with all relevant rules, regulations and sourcebooks and has no appetite for material regulatory breaches. The Bank has policies and procedures in place to ensure compliance with the regulatory obligations and robust oversight and monitoring to evidence compliance. The Bank regularly engages with the PRA, FCA and other regulators and industry bodies to proactively manage this risk.

In assessing this risk management considers the control mitigants in place, and the advantages inherent in having no legacy issues to resolve. Key mitigants are a strong, appropriately-resourced risk function, the simplicity of the Bank's product range and a culture of delivering unparalleled levels of service and convenience, to ensure the consistent delivery of good Customer outcomes; all of which have been positively acknowledged by the FCA in its Firm Evaluation of Metro Bank. Additional controls include regular reporting of regulatory compliance oversight by the Executive Risk Committee and Risk Oversight Committee.

- Compliance monitoring and outcomes testing programme in place and regularly reviewed.
- Control around Customer data and IT systems both internally and with outsourcing partners.
- Mandatory monthly regulatory training for all colleagues.
- A culture built on transparency and service focussed on delivering the right customer outcomes.
- Reward and recognition for all colleagues focussed on providing exceptional customer service and recognising risk, compliance and audit requirements.
- Training and Competency schemes for all Customer facing roles. Products and services offered pose a low regulatory risk.

12. Principal Risks: Conduct Risk

The Bank has no appetite for unfair customer outcomes. The Bank provides customers with simple, fairly priced products delivered through unparalleled levels of services and convenience.

In assessing this risk, management considered the control mitigants in place and the advantages inherent in having no legacy issues to resolve. In addition, the simplicity of the Bank's product range and our culture of delivering unparalleled level of service and convenience to our customers help to ensure the consistent delivery of good customer outcomes.

Key controls include:

- A culture built on transparency and service
- Products and services offered being simple and transparent
- No sales incentive schemes in place
- Training and Competency schemes for all customer-facing roles
- Conduct risk training included in the mandatory training for all colleagues
- Close management of third party relationships
- Compliance Monitoring Programme in place and regularly reviewed
- Regular consideration of conduct risks at the business risk committees
- Close and regular oversight of conduct risk by the CEO and CRO and Executive Risk Committee

13. Principal Risks: Financial Crime Risk

Metro Bank sets out its risk appetite and approach within its policies and procedures to ensure compliance with its regulatory obligations. Monitoring and oversight is in place for systems and controls to affirm that they remain robust and effective. The Bank regularly engages with the FCA, other regulators and industry bodies to proactively manage its financial crime risks.

Key controls include:

- Financial crime training included in the mandatory training for all colleagues, and enhanced in customer facing roles
- Financial crime oversight and assurance of the financial crime risk management framework in the business
- The development of Key Risk Indicators for management reporting, including the monitoring of risk appetite.
- Regular consideration of financial crime risks through a dedicated committee, with further provisions to Board level.
- Financial Crime Risk assessment, including impact assessment of each of the key risk areas to which the Bank is exposed.
- Risk control assessment, evaluating the effectiveness of the control framework covering financial crime risks to which the business area is exposed.

14. Principal Risks: Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Metro Bank aims to accept a minimal level of operational risk, and in doing so seeks to minimise operational failures. Key Risk Indicators are used to provide an overview of the control environment and to assess performance against the Bank's operational risk appetite. As part of the ICAAP, the Bank's key operational risks are assessed, stressed and quantified.

Each Business Area is required to conduct regular risk and control assessments which identify and analyse the core risks facing their business. These are maintained in conjunction with the Bank's Operational Risk team, who provide challenge and oversight of the process.

Business Continuity Plans are in place for all operational locations. These plans are updated and tested to ensure that they are robust and fit for purpose. The Bank uses external disaster recovery sites as back up locations for both IT servers and staff.

15. Other Risks

15.1 Concentration Risk

Concentration risk exists through having high or excessive exposures to certain counterparties, regions or sectors which can lead to a concentration of loss in the event of an adverse movement in the strength or creditworthiness of the borrower or security.

The Bank actively assesses and monitors its exposure to a range of characteristics, including sector, region, and security type. Concentration risks from lending activities are managed and controlled through the adoption of a concentration risk policy. Reported exposures against policy limits are reviewed and discussed on a monthly basis.

Although there is diversification within the Bank's portfolios and operations, there are certain features of the Bank's activity which contain an element of concentration:

- Geography: the Bank predominantly operates within the South East of England.
- Asset class: notwithstanding the range of products and customer types, Metro Bank has a sector focus on SMEs and retail mortgages.
- Funding: the Bank has one primary source of liquidity which is retail and commercial deposits.

Although the Bank only operates within the UK and limits its focus on certain sectors, these sectors have been targeted due to the Bank's expertise and/or the security and other risk mitigants available.

Concentration risk of treasury assets is managed and controlled through the treasury large exposures policy.

15.2 Insurance Risk

The Bank does not insure commercial risks such as credit, market or residual value exposures. Metro Bank has insurance protection for standard business risks. These include professional indemnity, directors' and officers' insurance, and insurance for buildings and equipment.

15.3 Pension risk

Metro Bank has a defined contribution scheme, which is expensed through the profit and loss account. The Bank has no exposure to defined benefit pension schemes.

15.4 Residual Value Risk

The Bank does not take residual value risk.

15.5 Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collaterise or credit enhance any transaction from which it cannot be freely withdrawn. In Metrobank the encumbered assets are used to support collateral requirements for central bank operations, third party repurchase agreements, securitisation and the Term Funding Scheme.

As at 31st December 2017, Metro Bank has £4,478m (31st December 2016: £2,725m) of encumbered assets, and £11,877m (31st December 2016: £7,332m) of unencumbered assets.

Please find further breakdown of the encumbered and unencumbered assets below:

Encumbered Assets	£m Carrying amount of encumbered assets 2017	£m Carrying amount of unencumbered assets 2017	£m Carrying amount of encumbered assets 2016	£m Carrying amount of unencumbered assets 2016
Loans on demand	0	2,391	0	582
Debt Securities	2,419	1,496	2,062	1,165
Loans and advances other than loans on demand	2,059	7,278	663	5,019
Other assets	0	712	0	566
Carrying amount of assets	**4,478**	**11,877**	**2,725**	**7,332**

*Please note the carrying amount of assets only include items on the Balance Sheet

16. Remuneration

The Bank's Remuneration Committee ensures that it operates a remuneration process and implements a remuneration policy which is consistent with the principles of PRA rulebook and the Remuneration Code.

The policy focuses on ensuring sound and effective risk management through:

- A stringent governance structure for setting and communicating goals to colleagues.
- Performance assessment metrics for Executives and other code staff, which are reviewed and agreed by the Chief Risk Officer and include both financial and non-financial goals.
- Making all variable remuneration awards at the discretion of the Committee and subject to individual, business unit, overall Bank performance, stated risk appetite and ICAAP measures.

For more detail on the remuneration policy please see the disclosure statement on the Metro Bank website.