METRO BANK

Annual Report & Accounts 2019

Our purpose

To create FANS

At Metro Bank we aspire to revolutionise UK retail banking by building a bank that puts our customers first.

This is helping us achieve our ambition to become Britain's best community bank – a bank that is deeply rooted within the communities we serve, integrated with complementary digital channels.

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MORE INFORMATION
metrobankonline.co.uk

Summary of the year

Financial

Underlying (loss) before tax[1]

£(11.7)m

Compared to profit of £50.0 million in 2018

Statutory (loss) before tax

£(130.8)m

Compared to profit of £40.6 million in 2018

Loan to deposit ratio

101%

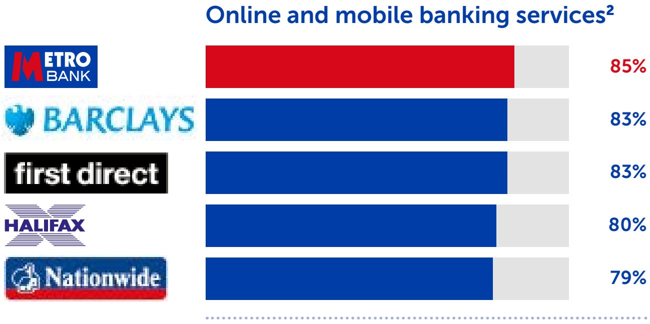
Compared to 91% in 2018

	2015	2016	2017	2018	2019	Year-on-year % change
Assets	£6.1b	£10.1b	£16.4b	£21.6b	£21.4b	-1%
Deposits from customers	£5.1b	£8.0b	£11.7b	£15.7b	£14.5b	-8%
Loans and advances to customers	£3.5b	£5.9b	£9.6b	£14.2b	£14.7b	+3%
Underlying profit/(loss) before tax[1]	£(46.6)m	£(11.7)m	£20.8m	£50.0m	£(11.7)m	-123%
Statutory profit/(loss) before tax	£(56.8)m	£(17.2)m	£18.7m	£40.6m	£(130.8)m	-422%

Strategic

- Increase in customer accounts to over 2.0 million, up from 1.6 million at the start of the year
- Ranked top in the Competition and Market Authority ('CMA') survey for personal current account overall quality of service for the majority of 2019. Ranked first for both in store and online and mobile banking services in latest results[2]
- Launch of our new strategic priorities focusing on
  - Costs
  - Revenue
  - Infrastructure
  - Balance sheet optimisation
  - Internal and external communications

Service in stores[2]



Online and mobile banking services[2]

Operational

- Opened six new stores, including expanding geographic presence to Wales and northern England
- Launch of new initiatives for small and medium sized businesses ('SMEs') including Business Insights – an artificial intelligence tool to help them better understand how they are using their money – and MCash, our cash delivery and collection service
- Launch of first marketing campaign focusing on our 'people-people' banking

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1. Underlying (loss)/profit before tax is an alternative performance measure ('APM') and excludes Listing Share Awards, impairment and write-off of property, plant & equipment ('PPE') and intangible assets, net Banking Competition Remedies Limited ('BCR') costs, transformation costs and remediation costs when comparing to our statutory (loss)/profit. Further details on our APMs are available on pages 177 to 179.
2. CMA results from February 2020.

Chairman's statement

Sir Michael Snyder
Chairman

2019 was the most challenging year that the Bank faced since it was launched nearly 10 years ago. This included making a material adjustment to our Risk Weighted Assets ('RWA'), periods of net deposit outflows and a delayed senior MREL issuance. These major challenges, together with continued competitive pressures in the residential mortgage market, resulted in a difficult year. Whilst these events have materially impacted our 2019 financial performance and our share price, we have retained a simple and resilient balance sheet with a strong capital and liquidity position, providing a solid foundation from which to rebuild. The Board is conscious of investors' support during this period and we are grateful for their patience.

The Board has been actively involved in our thorough evaluation of the Bank's strategy. This revised strategy that we announced in February recognises the need for change and includes a number of initiatives to return the Bank to profitability, whilst minimising capital consumption. The Board will closely monitor the implementation of this strategy and work with management to improve the financial performance of the Bank.

In addition, the Board has had active oversight of the implementation of the RWA remediation plan throughout the year and will continue to do so until its expected completion during 2020.

CHANGES TO BOARD COMPOSITION

Towards the end of the year, Vernon Hill and Craig Donaldson separately decided to step down from the Board as Chairman and Chief Executive Officer respectively. I would like to pay tribute to their vision and dedication, through which Metro Bank has grown to over 2 million customer accounts and I thank them for their significant contribution on behalf of the Board and colleagues.

I was appointed Chairman (on an interim basis) in October, and was delighted when Daniel Frumkin accepted the position as CEO, bringing with him a wealth of experience in retail banking. Following my transition to Chairman, Monique Melis was appointed as Senior Independent Director (on an interim basis). The Board's active search for a permanent Chairperson is progressing.

I also extend my thanks to the Non-Executive Directors who have stood down from the Board during the year: Lord Howard Flight; Keith Carby; and Ben Gunn. Additionally, Roger Farah stepped down from the Board in March 2020, while Gene Lockhart and Stuart Bernau will step down before the next AGM, and will not stand for re-election.

The Directors and I continue to review the composition of the Board to ensure it remains diverse in terms of background, skills and experience to support the strategic direction of the Bank. We have welcomed a number of new Non-Executives Directors: Paul Thandi joined in January 2019; Michael Torpey joined in September and Sally Clark joined in January 2020. Each of these talented individuals bring valuable experience and I look forward to their continued contribution.

REMUNERATION

In recent months we have been listening to our shareholders in relation to the revised Director's Remuneration Policy, for which we will seek approval at the AGM. Our proposed policy continues to have a simple, consistent remuneration structure. Newly appointed Directors' pension contributions will now be aligned with or lower than that available to the majority of the wider workforce across the Bank. Target variable remuneration has been brought in line with market practice, including an increase in the weighting of financial performance measures. A formal shareholding requirement has also been introduced and we have formalised the extension of the vesting of share options.

Together, these changes represent a progression of our policy to reflect the views of shareholders and best practice.

OUTSTANDING CUSTOMER SERVICE AT THE HEART OF THE LOCAL COMMUNITIES

Metro Bank stands out from the competition by delivering outstanding service and through active engagement with the local communities in which we operate. This year we've taken over 45,000 school children through our Money Zone education programme as well as holding over 2,500 charity and local business events. With many of our competitors reducing their physical footprint, we're demonstrating our value in the communities in which we operate and I look forward to the continuing growth of these activities as we move forward.

Every day we hear from our customers how much they appreciate the exceptional level of service we provide, the convenience we offer and the enthusiasm of our colleagues. Once again this has been recognised in our strong performance in the CMA Service Quality Survey, of which everyone at the Bank is rightly proud.

Improving our product offering, simplifying our processes by becoming more channel efficient, focusing on achieving cost efficiencies and proving we are good stewards of shareholders' capital will be critical in rebuilding trust with our stakeholders and it remains the focus of the Board for the year ahead.

The whole country is also facing an unprecedented challenge as it responds to COVID-19 and we are doing our very best to protect our colleagues and customers whilst continuing to provide the very best customer service.

On behalf of the Board I would like to recognise colleagues throughout the Bank for their continued dedication, to delivering outstanding service, and thank them in advance for their support in successfully implementing the strategic changes announced.

Sir Michael Snyder
Chairman
16 April 2020

Chief Executive Officer's statement

I was delighted to join Metro Bank in September 2019, initially as Chief Transformation Officer and now as Chief Executive Officer. I would like to begin by extending my deepest thanks to all the Metro Bank colleagues who have welcomed me and, more importantly, have kept customer focus at the heart of all we do, even during a challenging year.

BUILDING ON OUR STRENGTHS

In many ways, the response to the challenges of 2019 has demonstrated the underlying resilience of Metro Bank. The core strength of Metro Bank has been, and will remain, an AMAZEING group of colleagues who are tirelessly focused on customer service. It is our colleagues who will ensure Metro Bank achieves its ambition to become the UK's best community bank.

The CMA results, where Metro Bank was rated number one for store service and number one for mobile and online banking, is external validation of what I have learned over the last few months – Metro Bank is completely focused on its customers. The ratings also show the commitment of Metro Bank to providing full-service community banking, in-store, online and over the phone.

The energy expended to surprise and delight customers has continued to create FANS, even during a difficult 2019. Customer accounts grew almost 25% with 385,000 new accounts opened during the year, bringing total accounts to more than 2 million. In addition, retail customer deposit balances grew 33% in the year and SME customer balances were up 3%.

Our community banking philosophy and 'clicks and bricks' model, combined with an exceptional level of service resonates well with customers, and we continue to be successful in growing the number of personal and business current accounts. Also, in our current heartland of London and the South East, the number of SME business current account switchers choosing Metro Bank remained strong in 2019 at 15%[1].

We're absolutely committed to bringing market-leading service to SMEs and injecting more competition into the market, and we have already demonstrated our success in deploying Capability & Innovation ('C&I') funds to date. For example, in 2019, Metro Bank launched Business Insights – an in-app account insights tool for SMEs, MCash – an on-demand cash collection and delivery service, and opened its first store in the North, in Manchester. In February 2020, we agreed a revised business case with BCR whereby we have aligned Metro Bank's public commitments with our new strategy, and will return £50 million of the original £120 million we were awarded. Looking forward, with a reduced amount of £70 million, alongside Metro Bank's own investment of c.£140 million, the Bank will continue to transform the SME experience – through its market-leading service proposition, 15 new stores opening in the North of England and continued investment in its digital capabilities. With BCR's agreement, we're pleased to have been able to forge a new plan which delivers for SMEs and aligns with our new strategy.

THE WAY FORWARD – 'BECOMING THE UK'S BEST COMMUNITY BANK'

Over the last six months, my management team and I have worked with the Board to evaluate a new strategy for Metro Bank to enable it to deliver acceptable returns for shareholders. The inherent strengths of Metro Bank – AMAZEING culture, AMAZEING colleagues, AMAZEING customer service and a history of generating meaningful retail and SME deposit growth – provide solid foundations for a straightforward strategy where execution is key.

We have developed a set of strategic priorities with the ambition of becoming 'the UK's best community bank'. Community banking means being embedded in the local communities that we serve, ensuring local decision making, providing access to simple and straightforward retail, business banking and corporate services that best meet the needs of residents and businesses in the surrounding area. However, to build a platform that delivers acceptable returns for our shareholders, we must reduce the rate at which costs are growing, continue to evolve our customer proposition, invest efficiently in our infrastructure and be more effective with how we use our balance sheet to generate returns.

Our new strategy has these principles at its core:

1) Cost-saving initiatives

Cost growth has outstripped revenue growth and this cannot continue. Metro Bank has invested heavily in its store estate, creating a significant fixed, or quasi-fixed, cost base. We have performed a detailed store-by-store financial analysis to consider whether it made economic sense to close stores. It doesn't. Our stores are still growing and are more profitable tomorrow than today – and they provide a significant untapped potential as a distribution channel.

There are another group of costs that are driven by the operations of the business. These processing costs, including things like payment processing, credit card processing, etc. are mostly volume driven and bound by existing contracts. Another difficult area for reducing costs over the short term.

The remaining costs, the addressable costs, are made up of non-store colleague costs, non-store lease costs and non-store operations.

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1. Banking from Savanta, Survey Period: Q2-Q4 2020. Main bank for business banking – Switching Gains based upon 345 respondents of which 71 were in London and the South East. Data is weighted by region and turnover to be representative of businesses in GB.

Chief Executive Officer’s statement
continued

People-people banking

As part of our evolving brand strategy in 2020 we launched our first brand campaign, celebrating our long-standing belief in ‘people-people banking’.

The campaign – delivered through out-of-home advertising, cinema and online video as well as paid search – is built on our philosophy that, whatever happens in the future of banking, people need people and value human relationships.

The adverts featured six colleagues – identified via an internal talent search – who embody the spirit of ‘people-people banking’.

The campaign has given us an exciting platform to communicate our differentiated position and showcase our award-winning customer service credentials and over the course of the first three months in 2020 was displayed in more than 2,000 placements across 77 out-of-home locations close to our stores as well as appearing in around 400 cinemas.

To effectively control these expenses, plans are in place to revisit our non-store property leases, especially in central London. In addition, the infrastructure investment in the plan includes several initiatives that allows Metro Bank to scale more effectively. This includes new digital self-service functionality, more straight through processing and new call centre infrastructure.

We expect low single-digit ‘run the Bank’ cost compounded annual growth rate (‘CAGR’) 2020 to 2024, allowing our total cost:income ratio to fall to 70-75% by 2024. To enable this objective, and the Bank’s strategic objectives, we will spend £250-£300 million of new opex investment (excluding depreciation and amortisation) and c.£100 million of capex, front-end loaded.

We have started to show our ability to moderate costs with sequential reductions in the pace of cost growth through 2019, and our revised agreement with BCR will allow us to become more cost efficient quicker while continuing to deliver for SMEs. This gives me great confidence that we can deliver our clear initiatives within the stated timeframe.

While there are a number of initiatives to contain costs, improving shareholder returns is a revenue story. It is about creating scale through deposit and revenue growth while holding costs and investments.

2) Revenue initiatives

There is significant opportunity to grow revenue at Metro Bank, through building stronger relationships with our existing customers, continuing to attract more people to our stores, embedding ourselves in more communities in the UK, continuing to invest in our number one rated digital offering and to upgrade our telephony infrastructure. This is a bricks, clicks and phone strategy that will drive revenue.

We need to deepen relationships with our customers by improving the range of our products and their availability through new and existing channels. For example, we intend to meet more customer needs by offering a broader range of unsecured customer loans, SME lending products, business and personal credit cards and niche mortgages, all while maintaining our disciplined attitude towards underwriting. This is an area Metro Bank has not previously focused on, evidenced by the fact that we currently arrange an average of two unsecured personal loans per store per month and only 3% of our Personal Current Account base hold our credit cards.

It also aligns perfectly with our customer service ethos; by meeting more customer needs, we create more FANS. We will also build on Metro Bank’s great strength of winning new customers and I believe that there is a significant opportunity to enhance footfall conversion in stores. We will do this by developing more effective in-store processes and improving colleague training.

Whilst we have grown our deposits at a CAGR of 30% over the last five years, our strategy conservatively budgets significantly lower deposit growth over the next five years. In addition, 2020 has the lowest deposit growth forecast of any year in the plan and is only 25% of our annual deposit growth in 2018, even though Metro Bank has six more stores.

Revenue growth is predicated on doing more with what we already have. The growth does not rely on significant store growth, although the plan does allow us to open a limited number of new stores. This includes six stores in 2020 and a further 18 between 2021-2024 including our revised C&I commitment. This will give us the opportunity to embed Metro Bank in more communities and bring our award-winning proposition closer to more people.

3) Infrastructure

We need to continue to build our number one service propositions in store and digital to ensure we continue to offer the best channel experience in an efficient way. To enable this, we need to continue to invest in our digital and physical infrastructure to deliver process improvements and enhance our core capabilities. We will continue to invest in stores, but in a more cost-efficient way – our new stores will be flexible in both size and design and we’ll aim to streamline and improve in-store processes. We’ll also grow our digital service offering and build out customer self-service opportunities. By pivoting towards greater automation we will improve our speed to market and streamline back-office functions.

It’s important that all of this is done whilst also enhancing our internal capabilities and resilience. This will be executed through investment in cyber resilience as well as investment in core risk systems such as financial crime infrastructure. We will of course continue investment in our core IT systems to ensure that we keep pace with the ever-changing regulatory agenda.

4) Balance sheet optimisation

Metro Bank has not focused on risk-adjusted return on regulatory capital as much as is required to drive adequate returns to shareholders. Focusing on risk-adjusted returns and growth in tangible book value will allow better planning decisions to be made going forward and deliver more value to shareholders.

Business lines, portfolios and investments will be reviewed based on the above discipline on an ongoing basis.

We will sell assets, securitise portfolios and rethink investment spend as necessary to ensure we are maximising the return on the balance sheet.

The loan portfolio composition will shift over the life of the plan. Unsecured credit will be offered to SME and retail customers, applying risk-based pricing. Niche mortgage lending will become a larger share of our mortgage operations and commercial lending to our valued customers will continue to grow.

5) Internal and external communications

I am pleased that we have launched our first marketing campaign – people-people Banking – which showcases our incredible colleagues and helps customers and potential customers to understand Metro Bank's differentiators. We will set realistic expectations of the future direction of Metro Bank and update on progress in a timely manner. For our colleagues, we will continue to provide full transparency to help inform and equip them to fulfil their roles and maintain our already high levels of engagement.

A CHALLENGING 2019

Last year, we faced headwinds from industry-wide competitive pressures, an evolving regulatory landscape, continued low interest rates and political uncertainty from Brexit. While these external challenges have dampened returns across the broader sector, Metro Bank faced specific challenges that impacted growth and profitability. These have been well trailed in previous announcements, and management undertook prudent steps to manage our capital and liquidity positions in response. Although these actions have impacted on profitability in the short to medium term, we enter 2020 with a resilient balance sheet, loyal FANS and a committed colleague base.

Our colleagues have shown incredible commitment to serving our customers into 2020 in the face of disruption caused by the COVID-19 threat and we will do everything in our power to meet customer needs through our various channels.

In closing, it would be remiss not to thank Vernon Hill and Craig Donaldson for all they have done for Metro Bank since it opened the doors to its first store 10 years ago. I truly appreciate the AMAZEING colleagues they have recruited into the business. It is these colleagues that give me confidence in the future of Metro Bank.

Daniel Frumkin
Chief Executive Officer
16 April 2020

Our purpose, values and strategy

Our ambition
- To become the UK's best community bank

Achieved through

Our purpose
- To create FANS

Delivered via

Our business model
- Unique culture
- Integrated model
- Low cost deposits
- Risk-adjusted returns

Supported by

Our strategic priorities
- Cost control
- Revenue growth
- Infrastructure investment
- Balance sheet optimisation
- Improved internal and external communications

Underpinned by

Our AMAZEING values
- Attend to everyday detail
- Make every wrong right
- Ask if you're not sure – bump it up!
- Zest is contagious, share it!
- Exceed expectations
- Inspire colleagues to create FANS!
- Nurture colleagues so they grow
- Game-change because this is a revolution

Business model

How we aim to create value

Inputs

METRO BANK BRAND

Our exceptional level of service resonates well with our customers, creating FANS who share their positive experiences with their friends and families. This delivers a strong brand awareness in our current heartland of London and the South East, recently supported by our 'people-people banking' advertising campaign in locations close to our stores.

c.90%[1]
Brand awareness

INTEGRATED PHYSICAL AND DIGITAL DELIVERY

Our integrated 'bricks and clicks' offering provides our retail customers with a truly differentiated level of service. Our network of 75 stores places us at the centre of communities, giving customers a face-to-face connection with our exceptional colleagues. Stores are open 362 days a year, 7 days a week and early 'til late, while our mobile and online capability offers the convenience of banking when and where our customers choose.

45%
of current account holders used stores and digital in the last 90 days

CUSTOMER CENTRIC CULTURE

Our colleagues are focused on delivering superior service and creating FANS. 80% of store managers and 75% of assistant store managers have been promoted from within, demonstrating the loyalty of our team members and their dedication to the success of the Bank. Our colleagues are at the heart of people-people banking and will drive us to become the UK's best community bank.

80%
of store managers are promoted from within

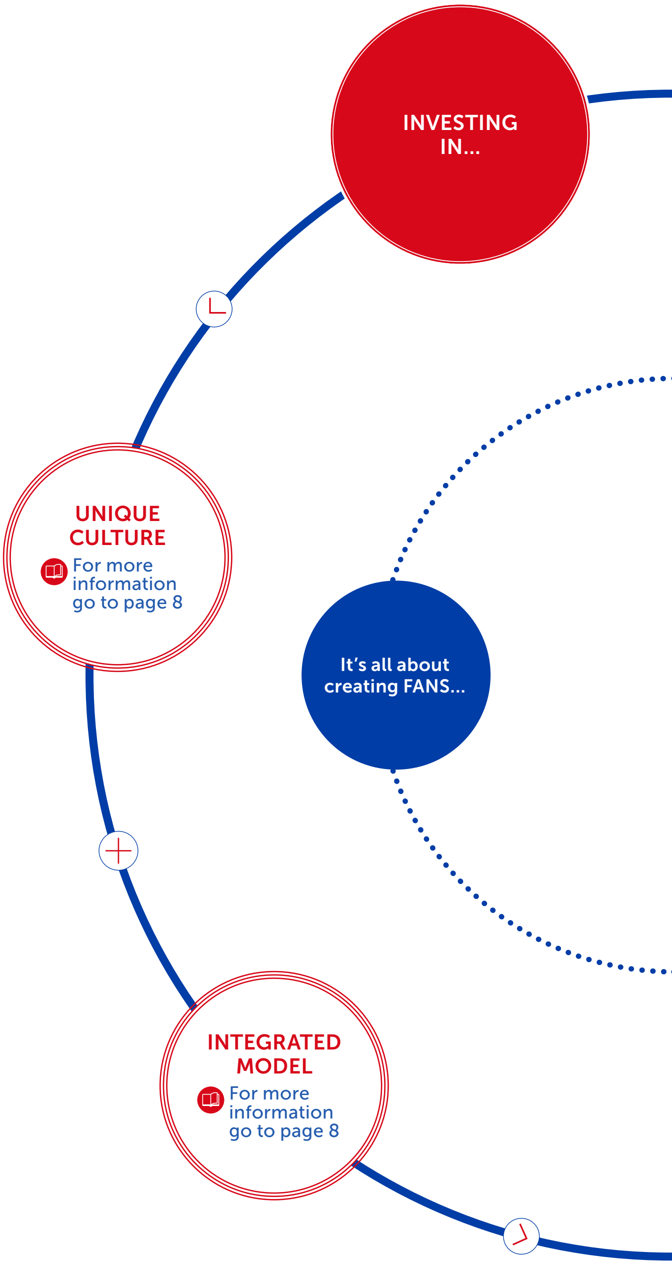
For more information go to page 44

RISK MANAGEMENT AND GOVERNANCE

Our approach is underpinned by strong risk management as well as a renewed emphasis on governance over the course of 2019. As at 31 December 2019, the majority of the Board was independent.

For more information see the risk report on pages 18 to 39 and governance report on pages 52 to 110

Our unique, integrated and disruptive approach to become the UK's best community bank



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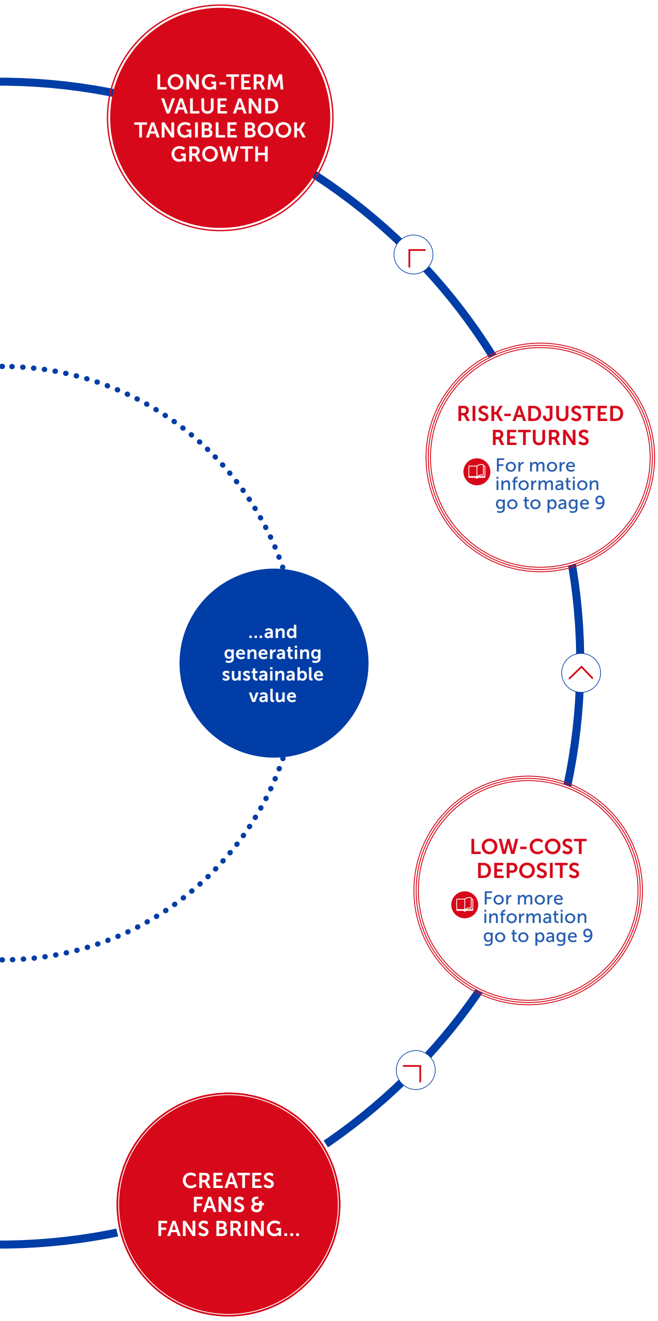
[1] YouGov plc, brand awareness survey. Total sample size in London was 1,014 adults. Fieldwork was undertaken between 27-29 January 2020. The figures have been weighted and are representative of all London adults (aged 18+).



Outputs

FANS

We have more customers than ever before, with customer accounts exceeding 2 million at the end of 2019.

No. 1

for service in store and mobile banking in the latest CMA ranking

FEE AND OTHER INCOME

Delivered strong growth in non-interest income, benefiting from our increasing number of customers and deepening the relationship we have with them.

+43%

growth in underlying fee and other income

DEPOSITS

Deposits from personal and small business customers continued to grow, demonstrating resilience throughout the year, despite challenges in other customer segments.

+33%

growth in retail customer deposits (excluding retail partnerships)

Stakeholder outcomes

FANS

We were delighted that our service continues to be recognised in the CMA rankings. We were ranked top for service in stores as well as our mobile and online services. We were also second overall for both retail and business current account service.

COLLEAGUES

92% of colleagues think Metro Bank is a great place to work.

COMMUNITIES

We hosted 2,500 community and charity events in store in 2019, as well as taking 45,000 school children through our Money Zone education programme.

For more information go to page 46

Business model continued

How we become the UK's best community bank

In order to achieve our ambition of becoming the UK's best community bank we are focused on the four components of our business model.

Unique culture

Our colleagues deliver superior service and are at the heart of our people-people banking approach.

Progress in 2019

- Undertook our first brand campaign focusing on 'people-people' banking and featuring six colleagues
- We were ranked top for service in stores in the latest CMA survey results

KPI

92% **(2018: 96%)**

of colleagues think Metro Bank is a great place to work in our annual voice of the colleague survey

Link to relevant risk

② Operational risk ⑦ Conduct risk

For more information go to pages 18 to 39

Link to remuneration

Ⓓ People

For more information go to page 85

Integrated model

Our integrated model aims to combine delivery through physical and digital channels.

Progress in 2019

- Opened six new stores, expanding into new geographies in the Midlands and Northern England
- Launched several new digital initiatives including MCash, the new on-demand cash collection and delivery service, and Business Insights, the artificial intelligence-led, in-app account insights tool for business customers
- Grew customer accounts to over 2 million from 1.6 million in 2018

KPI

2.0m **(2018: 1.6m)**

Number of accounts

Link to relevant risk

⑨ Strategic risk[1]

Link to remuneration

Ⓐ Customer accounts (financial) Ⓒ Customers

For more information go to page 85

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1. Strategic risk is a combination of our eight principal risks and therefore not assessed separately in the Risk report.

Low-cost deposits

We seek to attract low-cost deposits through our service-led community banking model with specific emphasis on our core retail and SME franchise.

Progress in 2019

- Despite overall deposits outflows in the first half of the year, retail and SME deposits continued to grow
- Low-cost personal and business current accounts reached over 1 million accounts

KPI

78bps (2018: 61bps)

Cost of deposits

Link to relevant risk

3 Funding and liquidity risk
4 Market risk
5 Financial crime
6 Regulatory risk

For more information go to pages 18 to 39

Link to remuneration

A Deposit performance (financial)

For more information go to page 85

Risk-adjusted returns

We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.

Progress in 2019

- Sale of previously acquired mortgage portfolio
- Reduction in growth of high risk-weighted lending with commercial loans from 31% of the portfolio at 31 December 2018 to 28% at the year end

KPI

8bps (2018: 7bps)

Cost of risk

Link to relevant risk

1 Credit risk
6 Regulatory risk
4 Market risk
8 Model risk

For more information go to pages 18 to 39

Link to remuneration

A Lending performance (financial)
B Risk

For more information go to page 85

Strategic priorities

How we execute our strategy

In order to be able to deliver our strategy and our 2024 targets we need to focus on five key strategic priorities, which are detailed below.

Initiatives	Details
Costs Tight cost control through back-office efficiencies, organisational simplification and disciplined property footprint	• Fixed costs are a significant portion of our cost base, primarily due to the store network; this in time will deliver significant operating leverage as revenues increase. • A range of initiatives are in place to ensure cost growth continues to moderate. – New stores will become more cost efficient and flexible in size, fit-out and leasing terms. – Back-office operations relocating to cost-effective locations; modernising contact-centre technology; digitising/automating services; and reducing organisational layers.
Revenue Meeting more customer needs and development of new capabilities	• Leading customer service proposition maintained and improved through deepening existing relationships and attracting new FANS, thereby driving revenue and margin growth. • Current product offering will be enhanced and broadened, while investing in our colleagues and technology to enhance accessibility for customers. • A limited number of new stores will be opened over the next few years, allowing us to be embedded in more communities. • Existing and new stores will benefit from the ‘people-people’ banking marketing campaign which will raise awareness of the Bank’s award-winning service.
Infrastructure Investment in integrated channels and core infrastructure	• Continued investment in the Bank’s leading customer proposition with the aim of bringing the physical and digital world together, making life easier for our FANS and colleagues. • Underpinned by further investment in technology, finance and risk infrastructure.
Balance sheet optimisation Enhanced focus on risk-adjusted returns and growing tangible book value	• Optimise balance sheet and asset mix whilst focusing on risk adjusted return on capital. • In the short term, tactical asset disposals will be considered, and in the longer term a number of funding diversification options will be considered to deliver greater risk-adjusted returns on capital. • Seeking a better yielding asset book and improved returns by rebalancing lending mix towards areas such as niche mortgages, SMEs and unsecured loans.
Internal and external communication Improve our approach to engagement	• Focus on providing colleagues, shareholders and other stakeholders with a clear message. • Ensure colleagues have a clear understanding of the transformation plan and their role within this. • Re-evaluating guidance, KPIs, tone and frequency of reporting.

	Targets 2024		Guidance
Deposits	**Growth** <10% CAGR 2020-2024	**Loan to deposit ratio** <100%	**Cost of deposits** To reduce over time as the mix of current accounts increases
Revenue	**NIM + fees** NIM expansion vs. 2019 Fee and other income to increase as proportion of revenue mix	**Cost of risk** 15-30bps	**Target lending mix** 75% Mortgages 20% SME 5% Unsecured
Operating costs	**New investment spend** £250-£300 million opex[1] and c.£100 million capex by 2024, front-end loaded	**Cost:income ratio** 70-75% by 2024 (including new investment spend, depreciation and amortisation)	**Growth** Low single-digit CAGR 2020-2024
Capital	**Capital ratios** Minimum 12% CET1 >20.5% TCR + MREL[2]	**MREL issuance** Up to £300 million before 1 January 2022[2]	**MREL issuance** Additional issuance post January 2022 in line with regulatory requirements

>8.5% Statutory RoTE by 2024

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1. Excludes depreciation and amortisation.
2. MREL issuance revised to £300 million from £500 million following the reduction in the countercyclical buffer to 0% from 1% (previously expected to increase to 2% in December 2020). All other assumptions remain unchanged.

Operating and market review

INDUSTRY TRENDS

UK banks' net interest margins have come under pressure in 2019, largely reflecting sustained competition in the residential mortgage market and the prolonged period of low interest rates. Larger competitors that fall within the scope of ring-fencing legislation implemented the regime in the second half of 2018, separating retail banking from international and investment banking activities. The excess retail funding and liquidity this created in the UK banking system has driven sustained competition in certain retail lending segments, particularly in the low loan-to-value parts of the residential mortgage market. This has resulted in lower yields on mortgages, with some smaller lenders choosing to exit the market during the year and others stepping back to prioritise margin over volume and market share. The UK has also experienced a period of historically low interest rates, with the Bank of England ('BOE') base rate below 1% for the last 10 years. For many financial institutions, including ourselves, net interest margins have remained under pressure as the scope for further reducing funding costs is limited, while overall lending yields have continued to remain low and in some areas of the market, such as mortgages, yields have reduced.

In response to these earnings pressures we have targeted other revenue generating opportunities, primarily growth in non-interest income through the delivery of value-added services. Among other initiatives, we launched an in-app Business Insights tool, made trade finance and foreign currency enhancements and introduced a mobile cash collection and drop-off service for SMEs. Alongside these actions, we have also implemented changes to safety deposit box pricing and optimised transaction fees from business debit cards, in total delivering an increase in fee and other income in the year. We will continue to invest in new services and products, deepening the relationship with business and personal customers.

2019 saw credit losses remain at recent lows. A number of mid-sized lenders are reassessing their appetite for growth in certain higher-yielding lending categories as a way to improve earnings, for example by growing their exposure to higher loan-to-value mortgages, SMEs, or unsecured consumer lending.

CAPITAL AND FUNDING

UK banks have made significant progress in implementing host jurisdiction requirements under the European Union's Banking Recovery and Resolution Directive ('BRRD'), designed to allow authorities to resolve a financial institution in an orderly manner without exposing the taxpayer to loss. Institutions subject to BRRD are also required to meet minimum requirements for own funds and eligible liabilities ('MREL'). UK financial institutions, including ourselves, with total assets greater than £15 billion are subject to the most stringent MREL requirements defined under the 'bail-in' stabilisation power. The BOE adopted a transitional period, with an interim requirement from 1 January 2020 equal to 18% of RWAs plus regulatory buffers. End-state requirements are effective from 1 January 2022 and for 'bail-in' banks are equal to two times its Pillar 1 and Pillar 2A requirement, plus regulatory buffers. Furthermore, UK resolution entities subject to a bail-in strategy are required to have MREL resources subordinated to operating liabilities using structural subordination, the timing of which coincides with the end-state MREL requirements.

In order to comply with interim MREL requirements by 1 January 2020 we issued £350 million of MREL qualifying senior non-preferred debt in October 2019. Our total capital plus MREL resources at 31 December 2019 was £2,018 million with a ratio of 22.1% of RWAs, exceeding the minimum 21.5% interim requirement at 31 December 2019. The minimum requirement was subsequently reduced to 20.5% in March 2020.

RWA densities across the UK banking system remain wide-ranging, driven by the differences between the advanced internal modelling approach ('AIRB') and the standardised approach for calculating credit risk. We continue to progress our AIRB application and continue to engage with the Prudential Regulation Authority ('PRA') on this iterative and detailed project. Alongside other small and mid-sized banks, we continue to hold proportionately more capital within Pillar 1 compared to the larger incumbent banks.

In aggregate, UK banks have drawn over £127 billion under the BOE Term Funding Scheme ('TFS'), which was introduced in August 2016 and designed to ensure the pass-through to the wider economy of the reduction in the base rate at the time. The Scheme closed to new drawdowns in February 2018 and given that banks were able to borrow funds for up to four years, the first drawdowns are due for contractual repayment in 2020. In advance of this, some banks began repaying TFS ahead of contractual maturities during 2019. We held £3.8 billion of TFS at 31 December 2019, with the majority of contractual repayments due in 2021. We are currently holding excess liquidity as a buffer for TFS repayment, which will be utilised alongside deposit growth and the pay-down or sale of non-LCR qualifying investment securities. This is currently under review in light of measures announced by the BOE in March 2020, which included a new funding scheme, the TFSME.

REGULATORY CHANGE

Increased focus from regulatory authorities is expected in the year ahead on a number of consumer topics, including the impact of high cost overdrafts and vulnerable customers. In 2019 we made a provision of £12 million for customer remediation, which predominately relates to non-compliance with certain requirements to provide SMS warning alerts to customers regarding overdraft charges. The error was subsequently corrected, and the CMA was informed. We pride ourselves on providing exceptional levels of service and we regret the impact on customers; any related charges will be refunded during the course of 2020.

Increased focus from regulatory authorities is expected in the year ahead on a number of consumer topics, including the impact of high cost overdrafts and vulnerable customers. We are working to ensure that our continuous focus on delivering exceptional service and treating customers fairly limits the impact of new regulations in this area.

Open banking continues to drive regulatory changes with third-party developers and firms building applications and services providing opportunities for more efficient and transparent banking. Regulators are mindful of the benefits whilst recognising the various challenges, such as risks to business models and reputation, and issues regarding data privacy, cyber security and third-party risk management.

The new lease accounting standard, IFRS 16, was implemented on 1 January 2019, requiring certain types of lease to be recognised on the balance sheet. Given the relatively young life of our store and office property portfolio, the introduction of this standard has had a proportionally greater impact on us compared to our peers. At the start of the year this added £313 million to RWAs and resulted in a £13 million net charge to underlying profit in the period. However, the impact on profitability will reduce over time as the leases mature.

CAPABILITY & INNOVATION FUNDING

In February 2020, we agreed a revised business case with BCR whereby we have aligned our public commitments with our new strategy, and will return £50 million of the original £120 million awarded. Looking ahead, with a reduced amount of £70 million, alongside our own investment of c.£140 million, we will continue to transform the SME banking experience, with our market-leading service proposition, 15 new stores in the North of England and continued investment in digital capabilities.

EVOLUTION IN DIGITAL BANKING

We benefit from modern IT infrastructure comprised of a limited number of systems that form a scalable, flexible, reliable and secure platform. The platform is crucial to our service proposition, including the ability to open accounts in a matter of minutes and the opportunity to deliver valuable insights to customers across their accounts using real-time analytics.

During the year our core banking system was successfully upgraded, providing increased business capability and operational resiliency to enable the roll out of new services, particularly to support our SME offering. Our digital environment and the deployment of micro-service architecture makes us an attractive partner for Fintech providers through API-enabled integrations. In conjunction with Personetics, an Israeli Fintech, we launched Business Insights, a powerful artificial intelligence-led, in-app tool empowering SME customers to make more data-driven decisions. Our app-based receipt management technology, also launched this year via beta trial and developed with Sensibill of Canada, supports small businesses to drive efficiency through automatically reconciling their transaction history.

In 2020 we will continue to bring game-changing innovation to small businesses, with new technologies to improve the essential daily tasks of invoicing, receipt management, bookkeeping and completing VAT returns. This functionality will be intuitively embedded into our mobile app and online banking, and also interface with cloud accounting providers.

CONSUMER BEHAVIOUR

The largest UK banks have continued to close branches in an effort to reduce their sizable networks costs. Further announcements of closures are typically met with a negative response from their customers and the media, as impacted customers are compelled to travel further to benefit from face-to-face services. In contrast, we opened six new stores in 2019 with further openings planned for 2020, with significantly longer opening hours than other banks on the high street. Customers continue to value our store network, with 45% of current account holders using physical and digital channels in an average three-month period. We continued to attract SME accounts, with 15%[1] of business switchers in the South East choosing us in 2019. The BCR Incentivised Switching Scheme has delivered fewer accounts than anticipated, although it is believed we are taking a proportionate share of those choosing to switch through the scheme.

MACRO TRENDS

We are a largely real estate backed lender operating in the UK, with personal and SME customers active in the domestic market. Growth in the wider UK economy was relatively benign during the year, impacted by the ongoing uncertainty surrounding Brexit and the effect of the general election called in the fourth quarter.

House prices have also remained broadly stable both nationally and in London and the South East, where we have the majority of our mortgage exposure, recording only modest growth during the year. Employment and average household incomes continued to be bright spots in the economy, with unemployment continuing to track historic lows and income growth trending positively. These factors, combined with the low interest rate environment and our prudent approach to underwriting, resulted in low credit losses in the year.

The start of 2020 has seen increased economic uncertainty as a result of the COVID-19 situation, however we will continue to focus on our strategic objective of improving our risk-adjusted return.

PRA AND FCA INVESTIGATIONS INTO THE RWA ADJUSTMENT AND AIRB ACCREDITATION

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 by £900 million ('RWA Adjustment').

The PRA and Financial Conduct Authority ('FCA') are independently investigating the circumstances and events that led to the RWA adjustment. The FCA is also investigating disclosure relating to our application for AIRB accreditation.

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.

We continue to fully co-operate with our regulators in all respects.

SANCTIONS

In November 2017, on the advice of external legal counsel, we notified the Office of Foreign Assets Control of the United States Treasury Department ('OFAC') that we had discovered that a UK-based entity with which we had a banking relationship was subject to US sanctions relating to Cuba. We ended our relationship with the relevant entity.

In addition, in 2019 we discovered that a payment made to one of our customer's accounts, which had been received from a UK-based financial institution, had been routed to the UK-based financial institution from Iran. A further notification was made to OFAC.

We have initiated a review of the foregoing matters together with a review of our broader sanctions compliance and transaction monitoring policies and procedures with the support of external advisors, which is still ongoing. Metro Bank continues to fully co-operate with its regulators in relation to any enquiries in this regard.

OUR STRATEGY

We are a different kind of high street bank, with outstanding customer service and convenience delivered by outstanding colleagues across a range of distribution channels at the core of our strategy. We had growth of 385,000 customer accounts in the year, which demonstrates that our business model continues to resonate with customers. Our service has once again been recognised by our customers in the latest CMA Service Quality Survey.

Our objective to become the UK's best community bank is built on firm foundations: robust capital and liquidity; strong asset quality; simple balance sheet; sector-leading customer service underpinned by a strong culture and engaged colleagues; and customer account growth momentum. Community

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1. Banking from Savanta, Survey Period: Q2-Q4 2020. Main bank for business banking – Switching Gains based upon 345 respondents of which 71 were in London and the South East. Data is weighted by region and turnover to be representative of businesses in GB.

Operating and market review
continued

banking means being embedded in the local communities that we serve, ensuring local decision-making, providing access to simple and straightforward retail, business banking and corporate services that best meet the needs of residents and businesses in the surrounding area.

AN INTEGRATED MODEL

We believe in making life easier for our customers and our colleagues by investing to bring the physical and digital world together. This is highlighted by the fact that we have been recognised by our customers as the highest rated bank for both service in stores, as well as online and mobile banking services in the CMA Service Quality Survey published in February 2020.

For us, having a physical estate combined with a digital offering is a key differentiator and hugely valuable to our customer proposition. In 2019 we continued to invest in enhancing our digital offering with the launch of new services including Business Insights, our artificial intelligence-led, in-app account insights tool, which enables businesses to make more data-driven decisions and manage their cashflows better.

We are committed to collaborating with UK SMEs by embedding them into the products and services we offer. In October we signed a trio of fintech and SME partnerships with Funding Options, Conance and Due Dil to enhance our business banking offering and also later in the year launched MCash, which allows business customers to log on to our app and order cash for pick-up and/or drop-off at their convenience.

In 2019 we opened six new stores. These included the opening of a store in Manchester, our first in the North.

Looking ahead, we will continue to invest in enhancing our infrastructure and supporting our community banking model, through a fully integrated 'bricks and clicks' model.

AMAZEING COLLEAGUES

We are proud of having culture at the heart of everything we do; creating a truly differentiated approach to banking cannot be achieved without the right people and attitude. It is colleagues and their interactions with customers that will ensure we realise our ambition to become the UK's best community bank.

Our colleagues deliver superior service and are at the heart of our people-people banking. We now have over 3,500 colleagues, of which 92% believe that we are a great place to work. Their dedication to the Bank is also reflected in our internal promotion statistics, with 80% of our store managers and 75% of our assistant store managers hired from within. By investing in our colleagues we are ensuring that we will continue to offer a truly differentiated experience in UK banking.

During 2019 we also expanded our work in communities. Our colleagues taught over 45,000 school children about money by hosting over 1,500 Money Zones, our financial education programme. We also supported our charity partner, Teenage Cancer Trust, with colleagues raising over £100,000 for this important cause during the year.

LOW-COST DEPOSIT LED BANKING

Our exceptional customer service has continued to delight our FANS and this is reflected in the 385,000 increase in customer accounts, which ended the year at over 2 million. As well as delivering account growth, we also have a proven ability to grow total deposits, with 30% CAGR over the last five years, including growth in personal and business current accounts which are largely non-interest bearing. At just under a third of our total deposits, these non-interest bearing liabilities are a key element of our funding model. Through our colleagues' continued focus on exceeding the expectations of our customers, increasing the convenience of accessing our services such as Business Current Account opening online, we will continue to drive up the proportion of current accounts within our deposit mix. Our pricing on retail fixed term deposit accounts was elevated as we took action to drive deposit momentum in the second half of 2019. Our front-book rates on these accounts have now normalised as we moved into 2020, supporting a lower average cost of deposits in future.

COST INITIATIVES

Our fixed costs make up a significant portion of our cost base, primarily due to significant investment in the store network. Every one of our stores is still growing and this fixed cost base will, in time, deliver significant operating leverage. In the meantime, we have initiatives in place to ensure 'run the Bank' cost growth continues to moderate. We will streamline back-office operations by relocating to cost-effective locations; modernise our contact-centre; scale more efficiently through investment in technology to digitise services; and move to reduce organisational layers across the Bank while reducing our use of consultants and contractors.

REVENUE INITIATIVES

Key to driving revenue growth is in leveraging our fixed cost base. We will maintain and improve our leading customer service to both deepen existing relationships and attract new FANS to drive revenue and margin growth. The current product offering will be enhanced and broadened; these will include a wider range of unsecured customer loans, SME lending products, credit cards, niche mortgages and overdrafts. We will also develop a broader range of savings products and work with partners to offer new services. We will invest in colleague training and technology to enhance accessibility for customers and improved credit scoring. The potential for growth is considerable, for example only 3% of our personal current account customers hold a Metro Bank credit card.

A limited number of new stores will be opened over the next few years, allowing us to be embedded in more communities.

INFRASTRUCTURE INVESTMENT

We will continue to invest in our leading customer proposition with the aim of bringing the physical and digital world together, making life easier for FANS and colleagues. This will be underpinned by further investment in technology, finance and risk infrastructure.

BALANCE SHEET OPTIMISATION

We will optimise our balance sheet and asset mix whilst focusing on risk-adjusted return on regulatory capital. In the short term, tactical asset disposals will be considered, and in the longer term a number of funding diversification options will be considered to deliver greater risk-adjusted returns on capital. We will seek a better yielding asset book and improved returns on regulatory capital by rebalancing our lending mix towards higher-yielding segments such as specialist mortgages, SMEs and unsecured loans.

COMMUNICATIONS

Our strategy will focus on providing colleagues, shareholders and other stakeholders with a clear message. We will ensure colleagues have a clear understanding of our transformation plan and their role within this. Externally, we are re-evaluating guidance, KPIs, tone and frequency of reporting.

Financial review

The challenges we have faced this year are reflected in our trading performance for 2019. Our underlying loss before tax of £11.7 million is a decrease from the £50.0 million underlying profit we reported in 2018. This reduction reflects a difficult market backdrop driven by sustained mortgage market competition, low interest rates, the earnings impact of debt issuance, and the adoption of IFRS 16 that changed how we account for our lease costs. We are also absorbing the financial impacts of management actions taken to maintain a strong capital and liquidity position following events of the first half of the year. The sale of £1.5 billion interest-bearing treasury assets, a £521 million loan portfolio disposal, adjustments to deposit pricing and a slower pace of loan growth reduced revenue, particularly in the second half of the year. The statutory loss before tax of £130.8 million in 2019 reflects the impact of non-recurring items including the write-down of certain intangible assets as well as transformation and remediation costs.

	Reconciliation £'million
Underlying loss before tax	**(11.7)**
Impairment and write-off of PPE and intangible assets	(77.7)
Remediation costs	(26.8)
Transformation costs	(11.5)
Net BCR costs	(2.6)
Listing Share Awards	(0.6)
Statutory loss before tax	**(130.8)**

For more information on our APMs go to page 177

Despite these challenges we have continued to deliver on key objectives. During 2019 we made good progress with our cost transformation programme, reducing the pace of cost growth in the second half of the year relative to prior periods, whilst continuing to expand our physical presence and product offering. We have also been successful in growing our customer base and deepening relationships with existing customers, driving higher underlying net fee and other income to £90.4 million, up 43% from £63.3 million in 2018. Asset quality has remained strong, with 2019 cost of risk at 0.08% compared to 0.07% in the prior year. Our strongly performing credit portfolios and a robust capital and liquidity position stand us in good stead as we enter 2020.

DEPOSITS

Deposits from customers ended the year at £14.5 billion, with a reduction in the first half of the year driven by the intense speculation that preceded the £375 million equity capital raise in June 2019. Deposit withdrawals predominantly came from a limited number of our larger commercial customers, with commercial deposit balances (excluding SMEs) reducing to £2.5 billion from £5.1 billion in 2018.

Customer deposits	2019 £'billion	2018 £'billion	Change
Retail customer (excluding retail partnerships)	**6.9**	5.2	33%
Retail partnerships	**1.8**	2.2	(18%)
Commercial customers (excluding SMEs)	**2.5**	5.1	(51%)
SMEs	**3.3**	3.2	3%
Total customer deposits	**14.5**	15.7	(8%)

Retail and SME deposits displayed significant resilience in 2019. Retail deposits (excluding retail partnerships) continued to grow through the year to £6.9 billion from £5.2 billion in 2018, supported in part by competitively priced fixed-term retail savings. We also reported a 3% improvement in the SME deposit base, which ended the year at £3.3 billion, compared to £3.2 billion in 2018, demonstrating the strength of our SME proposition. These core retail and SME deposits now represent 48% and 23% of our deposit base respectively, up from 33% and 20% as at 31 December 2018.

	2019 £'million	2018 £'million	Change
Deposits	**14,447**	15,661	(8%)
Customer accounts	**2.0m**	1.6m	25%
% current accounts	**29%**	30%	(1pp)
Cost of deposits	**0.78%**	0.61%	17bps

Strong service recognition results, increasing brand awareness and new store openings as well as competitive pricing on our fixed-term retail savings products aided growth in the total number of customer accounts.

2019 was a strong year for customer acquisition, with the number of customer accounts growing to 2.0 million from 1.6 million at year-end 2018.

Deposit growth into 2020 and beyond, alongside excess liquidity, will support the repayment of drawdowns under TFS. Our total borrowings under the scheme are £3.8 billion, of which £543 million is repayable in the second half of 2020, as appropriate.

ASSETS

Total assets reduced marginally to £21.4 billion from £21.6 billion at the end of 2018, which primarily reflects a £1.1 billion reduction in treasury assets, partially offset by a £0.4 billion increase in net loans and advances to customers and a one-off £313 million increase in right-of-use lease assets following the adoption of IFRS 16. The reduction in treasury assets reflects the sale of non-LCR eligible assets to prudently manage the Bank's liquidity position through the year.

	2019 £'million	2018 £'million	Change
Loans and advances to customers	**14,681**	14,235	3%
Total assets	**21,400**	21,647	(1%)
Loan to deposit ratio	**101%**	91%	10pp
Cost of risk	**0.08%**	0.07%	–

Despite the £521 million disposal of a previously acquired loan portfolio, net loans and advances increased by 3% to £14.7 billion (31 December 2018: £14.2 billion). The disposed portfolio was not considered a strategic asset, with its sale having no impact on our customer franchise given it was continually serviced by an external provider. Lending growth in the year was primarily driven by the ongoing support of our existing franchise and fulfilment of our committed pipeline at the end of 2018 flowing through during the first months of the year. As the year progressed, lending growth slowed as we proactively managed our loan to deposit ratio and looked to reduce our exposure to higher risk-density commercial lending following the RWA adjustment in January 2019. Commercial lending as a percentage of total lending reduced to 28% from 31% in 2018.
Our loan to deposit ratio increased during the first half of 2019 to 109% at 30 June 2019 from 91% at the end of 2018, following growth in customer loans. However, we made good progress in reducing the ratio in the second half of the year, supported by a return to deposit

Financial review
continued

growth in the third and fourth quarters and management of lending volumes through upward adjustments to asset pricing.

Asset quality remained particularly robust in 2019 with cost of risk broadly remaining flat at 0.08% compared to 0.07% in the previous year. Non-performing loans increased to 0.53% from 0.15% in 2018, reflecting seasoning of the loan portfolio and a single name commercial exposure.

For more information on our cost of risk and non-performing loans go to page 26

INCOME

Total underlying income decreased marginally year-on-year to £400.1 million from £404.1 million, reflecting a 3% reduction in interest earning assets to £20.3 billion and interest income pressure driven by sustained competition in the residential mortgage market, offset by a 43% increase in underlying net fee and other income. Interest expense increased to £188.1 million from £114.3 million and captures the full-year expense of the £250 million subordinated Tier 2 notes issued in June 2018 and one quarter of interest on the £350 million senior non-preferred notes issued in October 2019. Cost of deposits has risen to an average of 78bps for full-year 2019, from 61bps in 2018, reflecting competitive pricing in retail fixed-term savings and absorption of the impact of the August 2018 Bank of England base rate rise. On a statutory basis total income rose 3% from £400.1 million to £415.6 million.

The adoption of IFRS 16, the new leasing standard, also had an impact on net interest income through the recognition of an interest charge on the lease liability, partly offset by a reduction in lease expenses. The net effect was a c.£18 million reduction in revenue. Given growth in our store network and our relatively young lease portfolio, the impact is more pronounced for us compared with many of our peers.

The above trends resulted in a year-on-year reduction in our net interest margin ('NIM') to 1.51% from 1.81%.

NIM reconciliation	Reconciliation
2018 full year net interest margin	**1.81%**
IFRS 16 adoption	(0.07)%
Treasury assets (inc. disposals)	(0.08)%
Lending yield	(0.05)%
Cost of deposits	(0.12)%
Debt interest expense	(0.11)%
Loan-to-deposit ratio and other	0.13%
2019 full year net interest margin	**1.51%**

The income impact from the reduction in NIM was partly offset by the strong growth in fee and commission income, up 43% year-on-year to £90 million (2018: £63 million) on the statutory basis. Non-interest income growth has been an area of focus for the Bank throughout 2019, with the increase driven by optimisation of fee structures, strong growth in customer accounts and the introduction of new value-added products and services. Net fee and other income (excluding net gains on sale of assets) as a percentage of total revenue has increased to 24% from 16% in 2018. Given our strong focus on customer service and further expansion of our product offering for SMEs, we expect non-interest income to continue to grow in 2020.

OPERATING EXPENSES

	2019 £'million	2018 £'million	Change
Depreciation and amortisation	**76.4**	45.1	70%
Total operating expense	**534.7**	355.5	50%
Total underlying operating expense	**400.1**	346.1	16%
Statutory cost:income ratio	**129%**	88%	
Underlying cost:income ratio	**100%**	86%	

Underlying operating expenses grew by 16% during the year to £400.1 million, with statutory operating costs up 50% to £534.7 million. Given our focus on improving cost efficiency, the pace of cost growth slowed in the second half of 2019 to just 2% versus the first half. The increase in operating expenses primarily reflects the expansion of our store footprint driving higher people and occupancy costs and growth in regulation and technology costs.

Depreciation and amortisation grew to £76.4 million during 2019 (2018: £45.1 million) reflecting growth in the store network to 71 stores (2018: 65) and ongoing investment in IT and digital to support our integrated offering. The introduction of IFRS 16 lease accounting on 1 January 2019 also led to a depreciation charge on the right-of-use asset amounting to £16 million.

The underlying cost/income ratio increased to 100% in 2019 from 86% in 2018, driven by the income challenges outlined above.

The difference between underlying loss before tax of £11.7 million and statutory loss before tax of £130.8 million is principally driven by the write-down of certain intangible assets as well as costs relating to the Bank-wide transformation programme and the remediation work undertaken following the RWA adjustment in January 2019, customer remediation and work undertaken in relation to a review of our sanctions procedures. The RWA remediation programme is focused on improving risk-related internal systems, processes, controls and governance and is expected to be completed in 2020.

STORES

During 2019 we opened six stores, including the entry into new regions in the Midlands and the North. The opening in Manchester is the first to be delivered as part of our BCR commitments, and together with the new stores in the Birmingham area, represents an important phase of growth into SME hotspots outside of our existing geographical footprint.

At the year end we had 71 stores and in early 2020 we opened in Wolverhampton, Cardiff, Liverpool and Hammersmith. Going forward we will maximise the existing estate and selectively expand in strategic locations. We will adapt the new store formats to fit the communities that we will be serving, often with smaller sites, yet retaining the exceptional levels of service our customers expect.

TAXATION

During 2019 we made a total tax contribution of £123.1 million (2018: £120.3 million), which comprised £78.2 million (2018: £78.4 million) of taxes we paid and a further £44.9 million (2018: £41.9 million) of taxes we collected.

Taxes paid	2019	2018
Corporation tax	1.6%	4.6%
Business rates	12.9%	11.5%
Land transaction tax	3.3%	6.3%
Employer NICs	20.6%	18.7%
Irrecoverable VAT and Customs duty	61.3%	58.8%
Other	0.3%	0.1%
Total taxes paid	**£78.2m**	£78.4m

Taxes collected	2019	2018
Employees NICs	23.6%	22.3%
PAYE	62.1%	61.2%
Net VAT	14.3%	15.4%
Other	–	1.1%
Total taxes collected	**£44.9m**	£41.9m

In 2019 our tax expense recognised in the income statement was £51.8 million (2018: £13.5 million). This primarily relates to the derecognition of the deferred tax asset for unused tax losses. This has no impact on our regulatory capital position. The derecognition reflects the impact on our short-term results of the investment announced as part of our strategy. Our effective tax rate for the year was (39.5%) (2018: 33.2%).

ADOPTION OF IFRS 16

On 1 January 2019 we adopted IFRS 16 'Leases'. This had the impact of bringing £313 million of RWAs onto our balance sheet. We implemented IFRS 16 in the most capital efficient manner, which meant there was no reduction to equity at the point of transition. IFRS 16 has the impact of front-loading charges in the first half of a lease compared to IAS 17 (the previous accounting standard under which they were measured). As our lease portfolio is relatively young, this will lead to increased charges in the income statement for the medium term.

For more information on our implementation of IFRS 16 go to page 126

CAPITAL

We have maintained a robust capital position throughout 2019, supported by the £375 million equity capital raise in May 2019 and a slowdown in the pace of RWA growth, up 2% to £9.2 billion. Although the January 2019 adoption of IFRS 16 and RWA adjustment resulted in one-off capital impacts, our CET1 ratio remained above both our 12.0% minimum target and our 10.6% minimum regulatory requirement at 31 December 2019. Our 15.6% CET1 ratio and 18.3% total capital ratio demonstrate the strength of our capital position and provide headroom for controlled growth and the delivery of our strategy.

	Reconciliation
Total capital ratio at 31 December 2018	**15.9%**
IFRS 16 adoption	(0.5%)
Annual operational risk increment	(0.3%)
Organic lending growth	(0.4%)
Profit and loss account	(0.7%)
Intangibles/other	(0.6%)
Asset disposals	1.0%
Equity raise	3.9%
Total capital ratio at 31 December 2019	**18.3%**
Senior unsecured debt (issued October 2019)	3.8%
Total capital plus MREL ratio at 31 December 2019	**22.1%**

The senior non-preferred debt issuance in October 2019 ensured compliance with our interim MREL requirement of 18% of RWAs plus 3.5% regulatory buffers, with the Bank closing 2019 with a total capital plus MREL ratio of 22.1%.

In March 2020, the BOE announced a package of measures in response to the economic shock posed by COVID-19. First, cutting the base rate to 0.1% to support business and consumer confidence. Secondly, introducing a new Term Funding Scheme with incentives to support lending to SMEs. Finally, reducing the countercyclical capital buffer ('CCyB') to 0% from 1%, that had been due to reach 2% by December 2020. The adjustment to CCyB reduces our minimum CET1 requirement to 9.6% and our interim total capital plus MREL requirement (including regulatory buffers) to 20.5%.

	2019 £'million	2018 £'million	Growth
CET1 capital	1,427	1,171	22%
Risk-weighted assets ('RWAs')	9,147	8,936	2%
CET1 ratio	15.6%	13.1%	
Total regulatory capital ratio	18.3%	15.9%	
Total regulatory capital plus MREL ratio	22.1%	n/a	
Regulatory leverage ratio	6.6%	5.4%	1.2pps
Leverage	8.3%	6.4%	0.9pps

A reconciliation between our statutory balance sheet and our RWAs can be found on page 176

Further to the commitment made to the market in February 2019 to externally assure our RWAs, we are pleased to confirm that this undertaking is now complete and the Board has received a reasonable assurance opinion from PwC on the 2019 CET1 and total capital ratios. The relevant capital ratios are disclosed above.

The work we have undertaken, including significant investment of time and resources, supplemented with specialist advice and external assurance, allows us to demonstrate to the market that last year's RWA misreporting was taken seriously. On the basis of a materiality threshold of 35bps, meaning that a misstatement of the capital ratios of that level or greater would be considered material, we confirm that our capital ratios are materially correct.

LOOKING AHEAD

2019 has been a difficult year, due to both external headwinds as well as internal challenges. In order to face into these challenges we have developed a new strategy. This will see us focus on five key areas:

- Costs
- Revenue
- Infrastructure
- Balance sheet optimisation
- Internal and external communications

This will allow us to grow into our existing cost base as well as become more focused on delivering risk-adjusted returns and seek to deliver a greater than 8.5% statutory return on tangible equity ('RoTE') by 2024.

For more information on our strategic priorities go to page 10

In late January 2020 the first incidence of the COVID-19 was reported in the UK. This is clearly a serious situation impacting not just the UK, but also the global economy. The position has been, and continues to be, rapidly evolving and difficult to predict with any certainty. It is not possible at this point to quantify the impact and no adjustment has been made. However, our immediate focus has been to support our colleagues and customers.

David Arden
Chief Financial Officer
16 April 2020

Risk report

The management of risk lies at the heart of everything we do. Our overall risk strategy is maintained by the CRO and approved by the Board. We have a set of risk management principles that must be followed across the Bank, and robust controls in place to ensure risk is managed effectively. Our risk strategy and Risk Management Framework are under continuous review.

We will continue to embed improved risk management, processes and procedures and will make further improvements over the course of 2020.

We set out to align our people, processes, and systems to the way we manage the risks inherent in our business activities. This supports management of the business in a safe and compliant way.

Our approach to risk management consists of:

- A robust compliance and control environment
- Fair and consistent customer treatment and outcomes
- Maintaining a strong risk culture, with the right expertise

OVERVIEW

We know that a culture that truly focuses on delivering our purpose of creating FANS will reduce the risk of customer harm as well as deliver consistently fair outcomes.

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 with oversight by the Risk team.

Our 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 identify emerging risks and regulatory requirements.

Everything at Metro Bank starts with our culture, which supports risk awareness by encouraging every colleague to think about the relationship between their role and our purpose of creating FANS whilst growing safely and sustainably; and to be comfortable asking questions to ensure their actions do not result in financial loss, reputational damage or customer harm.

DEVELOPMENTS IN 2019

The announcement in January 2019 ('the RWA announcement') that we had adjusted the risk-weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans, with the combined effect of increasing RWAs by £900 million, has had a substantial effect. In response, the Board established a Working Group, supported by a major professional services firm, to review and assess the issues and factors that led to them in more detail. The objective of the Working Group was to identify and assess root causes; and determine what short-term tactical solutions, as well as long-term strategic solutions, are required.

Over the course of 2019 we made a considerable investment in remediation activity to enhance regulatory reporting processes, systems and controls as well as enhancing the risk management framework more broadly (details of which are set out later in this report).

2019 also saw us complete an equity capital raise in the second quarter of the year. The intense speculation that preceded it resulted in a concentrated period of net reductions in deposits, reflected in total customer deposits closing the year at £14.5 billion. The reductions were concentrated in May 2019 and we demonstrated a return to net growth in the second half of the year. The adverse sentiment that the speculation created mostly impacted a limited number of larger commercial customers, with retail and small business customer deposits remaining resilient throughout the year.

In response to the reductions in deposits, we took actions to manage capital and liquidity positions with loan and treasury asset disposals, management of lending volumes and initiatives to regain momentum in deposit growth. Though not without its own challenges, the senior non-preferred debt issuance in October 2019 also further strengthened the total loss-absorbing capital position, whilst ensuring compliance with interim MREL requirements ahead of the 1 January 2020 deadline.

These challenges demonstrated the robustness of our risk management and mitigation approach as we were able to successfully manage these events. We have, however, learnt valuable lessons from these events and have put in place a programme of investment in risk infrastructure going forward to assist with this. This investment in our risk infrastructure is a key component of our refreshed strategy.

BOARD ROLE

The Board is responsible for setting strategy, corporate objectives and risk appetite. The strategy and risk appetite consider the interests of our customers, shareholders and other stakeholders. Each principal area of risk to which we are exposed has a Risk Appetite statement detailing the metrics by which we measure the level of risk we are prepared to accept. Depending on the risk measure, the maximum acceptable risk may be zero. On the advice of the Risk Oversight Committee ('ROC'), the Board approves the risk appetite for 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.

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

INTERNAL CONTROLS FRAMEWORK

The Board has delegated responsibility for reviewing the effectiveness of the internal control framework 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.

The Director of Internal Audit's reporting line is to the Chair of the Audit Committee, with a dotted line to the CEO, and therefore supports the function's independence. As part of their work in 2019, Internal Audit and the Audit Committee reviewed the commercial RWA controls enhancement programme.

CHIEF RISK OFFICER AND THE RISK FUNCTION

Our Chief Risk Officer ('CRO') leads the Risk function, which is independent from operational and commercial functions. The CRO 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.

We have invested and will continue to invest in risk management to ensure that the risk function can continue to provide independent assurance to the ROC, Board and other stakeholders that risks in the Bank are being appropriately controlled and managed. During 2019 and early 2020 we have strengthened our risk senior leadership team with the addition of two new senior roles reporting to the CRO: a Director of Prudential Risk and a Risk Chief Operating Officer. We have also made a series of experienced hires across all lines of defence to boost the strength in depth of risk management capability, and enable the transfer of best practice knowledge across the Bank.

As part of our Strategy and Long Term Plan we have allocated additional investment to support delivery of key initiatives to enhance risk management capability, systems and infrastructure.

RISK MANAGEMENT POLICIES

We have established risk management policies to identify and analyse key risks, 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 business activities. Policies have annual or biennial review, depending on materiality, with a schedule maintained and presented at every ROC meeting to ensure reviews are tracked. 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.

Viability statement

Assessment of prospects and viability

In accordance with provision 31 of the revised UK Corporate Governance Code, the Board has assessed the prospects of the Company and Group over a longer period than the 12 months that has in practice been the focus of the 'going concern' provision.

The Directors have chosen to assess prospects and viability over a four year period. This compares to a five year time horizon over which the Group forecasts for financial and business planning purposes and which the strategic targets and guidance have been issued on page 11 cover. A shorter period is deemed appropriate for assessing viability as it is the period over which the financial forecasts have greater certainty.

Planning process

The Group's planning process includes an annual update to its forecast. This forecast is built to reflect the Group's business model which is outlined on pages 6 and 7.

The forecast takes account of the Group's strategy, risk appetite and objectives in the context of its operating environment including actual and reasonably expected changes in the UK interest rate and broader economic environment. It also incorporates the Group's new strategic priorities and long term plans, further details of which can be found on pages 10 and 11.

This forecast, including the assumptions used, is subject to rigorous review and challenge both from within the business and by the Board. The planning process is supported by a stress testing framework which assesses the base forecast to ensure the Group maintains a robust capital, liquidity and funding position in the event of stress by subjecting the base forecast to appropriate downside stress and sensitivity analysis over the assessment period. This takes into account the Group's current position, its experience of managing change and the impact of a number of severe yet plausible scenarios, based on the risks outlined in the risk factors and management section of this report.

Both the base case and stressed forecast plans are reviewed against the Group's risk appetite which is outlined on pages 22 to 37. This includes ensuring that the risk mitigants available to the Group (also detailed on pages 22 to 37) remain appropriate.

Assumptions

Key assumptions in the Group's base forecast include lending mix and growth, customer account and deposit growth, the Group's ability to achieve its cost saving plans, as well as anticipated liquidity requirements and projections. The Group has also assumed significant investment to achieve these goals, and that it will remain appropriately capitalised.

As highlighted on page 11, the Group reasonably expects to raise qualifying debt over the forecast period to fund anticipated growth and to continue to meet regulatory requirements. This comprises debt to meet requirements for own funds and eligible liabilities ('MREL'), which may require changes to the organisational structure of the Group, as well as various regulatory approvals.

These assumptions have been re-evaluated in respect of the emerging risks outlined below and the Board considers that these remain reasonable.

Emerging risks

In reaching their assessment of viability the Directors have considered emerging risks and these are reflected in the stress tests performed. This includes the UK's departure from the EU.

The Board has also considered the impact of the current and rapidly evolving situation surrounding the COVID-19 pandemic as well as the associated government and regulatory fiscal, monetary and other actions, as taken within the UK and internationally, on both the Group's prospects and viability. This includes the reduction in the base rate to 0.10% (from 0.75%) and government schemes to support British households and businesses.

As the situation surrounding COVID-19 arose after the Group had completed its planning process, additional work has been undertaken to examine the potential impact. This included a review of the economic assumptions used within the stress tests previously performed based on severe yet plausible scenarios.

In particular, the Group had previously undertaken a comprehensive severe stress on its expected credit losses, capturing a significant deterioration in customers' ability to pay. The current situation is uncertain but it is reasonably expected that this assessment is more severe than the economic impact widely commentated upon in the market regarding COVID-19. While the response to COVID-19 has featured low interest rates and substantial announced government intervention, both of which are expected to support continued repayment, and the Group benefits from relatively low exposure to unsecured lending and a conservative debt to value profile, it is nonetheless reasonable to expect the economic situation to have a significant adverse impact on credit quality and collateral values.

In reaching their conclusions, as well as the modelling outlined above, the Directors have also considered many other factors. These include, but are not limited to:

- The Group's conservative approach to credit risk – further details of which can be found in the risk report on pages 22 to 26;
- The Group's robust capital position – TCR plus MREL ratio as at 31 December 2019 of 22.1%;
- The Group's strong liquidity position – LCR as at 31 December 2019 of 197% – and access to the BOE's liquidity support schemes;
- A declining loan to deposit ratio from 2019 highs – LTD ratio at 31 December 2019 of 101%; and
- The fact the Group has continued to operate effectively to date, as has its key suppliers, and that it is well prepared should the situation worsen.

The Directors are also assured that there are further levers available to the Group should the situation evolve with greater severity than modelled. This includes as a result of non-credit related impacts to the Group's profitability, liquidity and capital position arising from COVID-19.

Further details of the Group's emerging risks can be found on pages 37 to 39. As the situation evolves the Group will continue to update and refine its models to reflect the most up to date information.

Conclusion

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

Risk report
continued

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 principal risk. Risk appetite is set by the Board, based on the recommendation of the ROC, and implemented by the Executive Risk Committee and its subcommittees. The risk appetite has been developed in line with business plan, strategy and vision, and is underpinned by a culture in which all colleagues embed risk considerations in decision-making.

RISK OVERSIGHT COMMITTEE

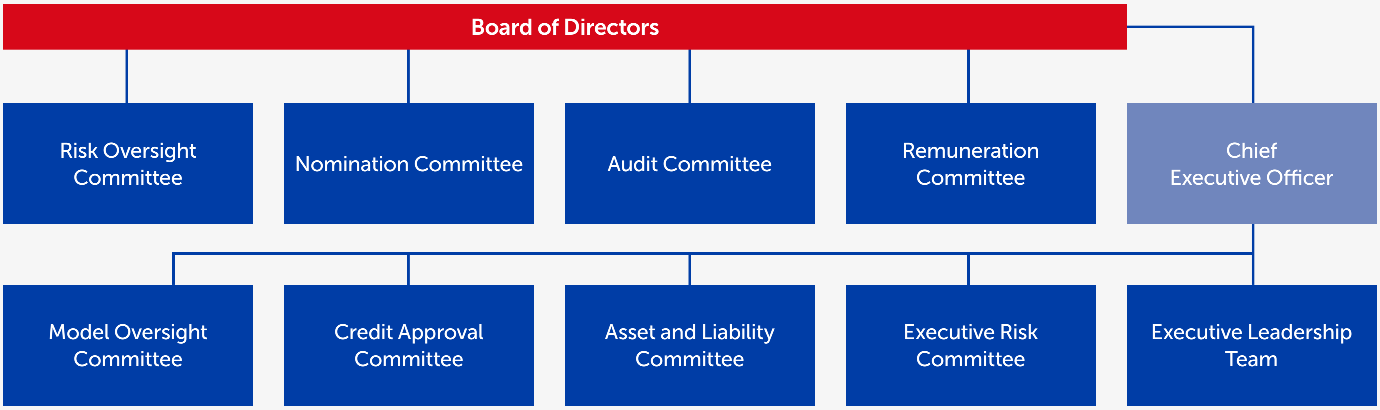
The ROC assists the Board in providing leadership, direction and oversight with regard to risk governance and management, and also assists the Board in fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. It works closely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

- recommending risk appetite statements and measures to the Board;
- 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, managing risk exposures and making decisions and recommendations to the Board, as appropriate, via the following executive risk committees:

Committee	Role
Executive Risk Committee	The Committee is chaired by the CRO and meets monthly. It and its subcommittees are responsible for: oversight of risk policies; reviewing credit, prudential, operational, regulatory and compliance risk management issues with regard to risk appetite; oversight of the Enterprise and Credit Risk management frameworks and performance of the Key Risk Indicators ('KRIs'); reviewing Assurance reports and findings; making recommendations for adjustment of policies to the Board; 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 higher value lending requests, and any exceptions to policy; monitoring overdue accounts; and granting and reviewing delegated lending authorities.
Model Oversight Committee ('MOC')	The Committee is chaired by the CRO, meets monthly and is responsible for: oversight of model governance and model risk monitoring, approval of all material models including combining and retirement of models.
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.



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

We operate 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, providing independent 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.

Board of Directors

Board establishes risk appetite and risk strategy
Approves frameworks, methodologies, policies and responsibilities

Operational management

1 First line of defence

- Line management in each business area
- Primary responsibility for risk management

Risk management

2 Second line of defence

- Independent risk management function
- Provides specialist advice, governance and oversight
- Supports and challenges the first line
- Provides risk and compliance assurance

Internal Audit

3 Third line of defence

- Internal Audit function
- Independent assurance and reporting line

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 on the Bank. The principal risks are designed to be both comprehensive and mutually exclusive.

The principal risks are detailed below. In addition to the eight risks listed, there is also a 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.

1. Credit risk
2. Operational risk
3. Liquidity and funding risk
4. Market risk
5. Financial crime risk
6. Regulatory risk
7. Conduct risk
8. Model risk

These are detailed further on pages 22 to 37.

Risk report
continued

1. Credit risk

Definition
Credit risk is the risk of financial loss due to a borrower's failure to meet the terms of any debt contract or where a borrower otherwise fails to perform as agreed due to financial difficulties.

For more information on our business model please see pages 6 to 9

Change since 2018:
No change

Link to business model:
Risk-adjusted returns

APPETITE

Our credit risk appetite is set to ensure that the risk we take is commensurate to the returns we receive. Our credit risk appetite is defined through our Credit Risk Policy which 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 ERC and the 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.

CHANGE IN YEAR

There have been no changes to the risk level during 2019.

MITIGATION

Lending and collateral

Our foremost exposure to credit risk is through the loans, limits and advances we make available 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, debentures 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 2019, 95% (31 December 2018: 94%) of our loans consisted of retail mortgages and commercial term loans secured on collateral with average debt-to-value of 59% (2018: 61%) and 60% (2018: 59%) respectively.

Our exposure to loans of greater than 100% remains low at less than 1% of retail mortgage lending (31 December 2018: less than 1%) and 11% of commercial term lending (31 December 2018: 11%). In the retail mortgage lending portfolio, these loans have principally been part of portfolios we have acquired. For commercial term lending, additional forms of collateral (such as debentures or unsupported guarantees giving 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.

Table 1: Retail mortgage lending by DTV

	31 December 2019 £'million			31 December 2018 £'million		
Audited	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%	**2,647**	**464**	**3,111**	2,124	458	2,582
51–60%	**1,383**	**393**	**1,776**	1,195	493	1,688
61–70%	**1,422**	**505**	**1,927**	1,374	553	1,927
71–80%	**1,813**	**554**	**2,367**	1,362	596	1,958
81–90%	**1,201**	**13**	**1,214**	1,205	129	1,334
91–100%	**23**	**–**	**23**	80	33	113
More than 100%	**4**	**8**	**12**	11	12	23
Total retail mortgage lending	**8,493**	**1,937**	**10,430**	7,351	2,274	9,625

Table 2: Commercial term lending by DTV

Audited	31 December 2019 £'million	31 December 2018 £'million
DTV ratio		
Less than 50%	**1,274**	1,277
51–60%	**818**	936
61–70%	**747**	791
71–80%	**221**	249
81–90%	**41**	100
91–100%	**49**	51
More than 100%	**396**	424
Total commercial term lending	**3,546**	3,828

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.

The approval for commercial lending is a manual approval undertaken by a specialist team of commercial underwriters in accordance with agreed delegated lending authorities. It is underpinned by a commercial lending policy supported by sector specific standards/guidelines.

Undrawn commitments

We have additional limited credit exposure to committed and undrawn amounts, such as unused overdraft limits and facilities. At 31 December 2019 we had £296 million (31 December 2018: £242 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 (31 December 2018: £4.4 billion). There is further exposure to refinance risk in the Commercial Book of £1.5 billion (31 December 2018: £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.

Table 3: Retail mortgage lending by repayment type

	31 December 2019 £'million			31 December 2018 £'million		
Audited	Retail owner occupied	Retail buy-to-let	Total retail mortgages	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Repayment						
Interest	2,573	1,834	4,407	2,242	2,166	4,408
Capital and interest	5,920	103	6,023	5,109	108	5,217
Total retail mortgage lending	8,493	1,937	10,430	7,351	2,274	9,625

Table 4: Commercial term lending by repayment type

Audited	31 December 2019 £'million	31 December 2018 £'million
Repayment		
Interest	1,483	1,592
Capital and interest	2,063	2,236
Total commercial term loans	3,546	3,828

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.

Table 5: Commercial term lending by sector exposure

Audited	31 December 2019 £'million	31 December 2018 £'million
Industry sector		
Real estate (rent, buy and sell)	2,374	2,547
Hospitality	308	235
Health and social work	263	217
Legal, accountancy and consultancy	236	384
Retail	100	99
Real estate (development)	62	52
Recreation, cultural and sport	51	19
Construction	35	60
Education	30	15
Real estate (management of)	11	72
Investment and unit trusts	8	1
Other	68	127
Total commercial term loans	3,546	3,828

Risk report
continued

1. Credit risk continued

Geographic exposure

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 broadly 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. A geographic analysis of the location of retail mortgage collateral and commercial term loan collateral is set out below:

Table 6: Retail mortgages by geographic exposure

	31 December 2019 £'million			31 December 2018 £'million		
Audited	Retail owner occupied	Retail buy-to-let	Total retail mortgages	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Region						
Greater London	3,424	1,197	4,621	3,034	1,231	4,265
South East	2,094	337	2,431	1,797	383	2,180
South West	738	97	835	616	122	738
East of England	570	76	646	492	91	583
North West	482	66	548	405	138	543
West Midlands	340	62	402	293	81	374
Yorkshire and the Humber	275	37	312	207	73	280
East Midlands	243	26	269	241	57	298
Wales	169	21	190	141	36	177
North East	93	11	104	83	31	114
Scotland	65	7	72	38	4	42
Northern Ireland	–	–	–	4	27	31
Total retail mortgage lending	8,493	1,937	10,430	7,351	2,274	9,625

Table 7: Commercial term loans by geographic exposure

Audited	31 December 2019 £'million	31 December 2018 £'million
Region		
Greater London	2,264	2,465
South East	648	677
South West	208	229
East of England	139	151
North West	136	145
West Midlands	60	50
Yorkshire and the Humber	37	26
East Midlands	17	33
Wales	14	29
North East	13	16
Northern Ireland	6	3
Scotland	4	4
Total commercial term loans	3,546	3,828

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 2019 we held £2.6 billion (31 December 2018: £4.1 billion) of investment securities which are used for balance sheet and liquidity management purposes, of which £2.4 billion (31 December 2018: £3.4 billion) is eligible as collateral at the BOE.

We hold investment securities at amortised cost or fair value through other comprehensive income ('FVOCI') depending on our intentions regarding each asset. We do not hold securities at fair value through profit and loss.

Table 8: Investment securities by credit rating

	31 December 2019 £'million			31 December 2018 £'million		
Audited	Investment securities held at amortised cost	Investment securities held at FVOCI	Total	Investment securities held at amortised cost	Investment securities held at FVOCI	Total
Credit rating						
AAA	**1,943**	**156**	**2,099**	3,113	230	3,343
AA- to AA+	**144**	**255**	**399**	306	319	625
A- to A+	**67**	**–**	**67**	39	28	67
Lower than A-	**–**	**–**	**–**	–	97	97
Total	**2,154**	**411**	**2,565**	3,458	674	4,132

We have a robust securities trading and investment policy which requires us to invest in high-quality liquid debt instruments. At 31 December 2019, 82% of our investment securities were rated as AAA (31 December 2018: 81%) with a further 16% (31 December 2018: 15%) rated AA- or higher with some use of derivatives for hedging purposes.

Additionally, we hold £3.0 billion (31 December 2018: £2.5 billion) in cash balances, which is either held by ourselves or at the BOE, where there is minimal credit exposure.

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 AIRB programme. Our stress testing capability was enhanced significantly during 2018 and continued to be so over the last 12 months.

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.

KPIs are defined, reported against and escalated through to the ROC. KPIs on portfolio concentrations are included in the monitoring reviewed by the Executive and Board Committees as part of our risk appetite. They are reviewed annually, with limit setting a collaborative exercise between first and second line teams. Limits are dependent on business objectives for the coming year. There are three classes of metrics: Tier 1 owned by the Board, Tier 2 owned by the Executive Leadership Team, and tracking metrics owned by management.

We monitor lending policy exceptions and their subsequent performance.

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

As of 31 December 2019, all exposures are measured under the standardised approach for credit risk for regulatory capital; we are parallel running the AIRB rating system for residential mortgages. We continue to progress our AIRB application and continue to engage with the PRA on this iterative and detailed project.

Risk report
continued

1. Credit risk continued

MONITORING

Credit risk is overseen by the CRO, ERC and the 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 including KPIs to senior management, ERC 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.

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.

Table 9: Non-performing loans

	31 December 2019		31 December 2018	
Group	Non-performing loans £'million	Non-performing loans ratio	Non-performing loans £'million	Non-performing loans ratio
Retail-residential mortgages	25	0.24%	9	0.09%
Retail-consumer and other	10	4.30%	5	1.74%
Commercial (including asset and invoice finance)	42	1.12%	7	0.16%
Total	77	0.53%	21	0.15%

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 177.

Table 10: Cost of risk

Group	2019	2018
Retail-residential mortgages	0.00%	0.01%
Retail-consumer and other	1.92%	1.54%
Commercial (including asset and invoice finance)	0.11%	0.10%
Average cost of risk	0.08%	0.07%

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 business model please see pages 6 to 9

Change since 2018:
Increase

Link to business model:
Unique culture

APPETITE

We aim to minimise the amount of operational risk and as such seek to maintain robust operational systems and controls.

CHANGE IN YEAR

Operational risk has increased during the year. The change in delivery pipeline in 2019 contained remediation, regulatory and mandatory change, and exciting developments for the SME marketplace using the C&I funds. This volume of change has heightened both the change delivery risk, and the ability of business areas to absorb large amounts of change into their processes. These risks are being activity managed through our change risk frameworks and reported through governance. As operational resilience, fraud and cyber security threats continue to evolve and affect the banking industry, we continue to monitor and manage these to appetite.

MITIGATION

Policies

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 and levels of change experienced inside and outside the Bank have increased the execution risks associated with delivery of the transformation programme described earlier in this report while also continuing to deliver consistently great service to our customers. Therefore, in 2019, we continued to invest heavily in our systems. One of the largest changes was the delivery of the upgrade of the T24 core banking system which went live in July 2019. We will continue to invest in fully or semi-automated controls to support us in managing within risk appetite, while freeing up colleagues to focus on our customers.

We have been expanding our SME product offerings as part of the BCR Capability and Innovation programme, working with new third-party providers, extending our physical store presence and enhancing our technology for growth. To mitigate the risks introduced through this change 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 which is crucial to protect data and provide secure reliable services.

We continue to evolve our ability to deliver superior service to our customers through our integrated technology stack. Given the rapid pace of change, continuous improvement of our technology infrastructure is essential to effective management of the risks associated with Bank's delivery agenda and the expansion of our digital footprint.

Delivery of the new strategy is dependent on additional investment in technology infrastructure. Ongoing investment is also required to protect us and our customers from the evolving threat of cyber risk.

Culture and training

As we evolve, we aim to do so safely through continued investment in training our colleagues. This enables them to deliver the right outcomes 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 2019. This includes an ongoing maturity assessment of our cross organisational resilience capability, a review of our mobile channels; enhancement of our crisis management plan and operational disruption event response planning as part of the T24 upgrade, and enhanced operational risk scenario analysis, particularly as part of our Internal Capital Adequacy Assessment Process ('ICAAP').

MEASUREMENT

We measure operational risk using a number of quantitative metrics. These KRIs and 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 2019 we continued to enhance our risk and control framework with the refresh of our risk appetite statement and operational risk policy, and development of operational (including IT) resilience capability; change risk management tools, and further alignment of risk governance to support consistent monitoring and escalation across the business areas.

Operational risk is overseen by the CRO, ERC and ROC.

Risk report
continued

2. Operational risk continued

Monthly Business Risk Committees are the business governance forums used to escalate risks and issues that are outside of appetite to the ERC and the ROC. Monitoring and oversight, along with compliance to policy, is provided on an ongoing basis by the Operational Risk Oversight team.

Targeted deep dive, thematic and desktop operational risk reviews are completed as part of an annual assurance plan completed by the Risk and Compliance Assurance team.

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.

We consider liquidity and funding risk to have increased year on year due to observed adverse movements in deposits and liquidity throughout the year, and the enhanced rates required to raise debt and deposits during 2019.

For more information on our business model please see pages 6 to 9

Change since 2018:
Increase

Link to business model:
Diversified low-cost deposits

APPETITE

Our liquidity risk appetite is based on the principle that we will ensure 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.

CHANGE IN YEAR

Liquidity and funding risk has increased during the year owing to deposit outflows experienced prior to our equity capital raise, increased competition in the deposit market, and higher volatility of large commercial deposits. Additionally, in 2020 we expect the impact of COVID-19 to have a negative effect, however given the inherent uncertainty over the length and scale of the pandemic it is too early to fully evaluate the impact of the situation.

MITIGATION

Deposit-funded approach

Our mid-term guidance as set out on page 11 underlines our approach of having a long-term loan-to-deposit ratio of less than 100%. Our retail deposit-led approach means we do not currently have reliance on wholesale funding to enable our ongoing lending.

We aim to attract deposits that are diverse and are low cost, which are less sensitive to competition within the deposit market. At 31 December 2019 40% of our deposits came from commercial customers (31 December 2018: 53%) with the remaining 60% (31 December 2018: 47%) coming from retail customers. Additionally, 29% of deposits at year end (31 December 2018: 30%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products. In 2019 our cost of deposits was 0.78% (2018: 0.61%).

Despite large adverse movements in deposits during short periods of the year, our deposit base at year end is stable and resilient, and retail deposits form a higher portion of our balance sheet than commercial deposits.

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 BOE as well as high-quality liquid assets ('HQLAs') that are available to monetise in the event of stress.

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.

3. Liquidity and funding 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 (including interest), on an undiscounted basis.

Term Funding Scheme repayments

TFS closed to further drawdowns in February 2018. Our drawdowns of £3,801 million will mature in 2020, 2021 and 2022 in the amounts of £543 million, £2,778 million and £480 million respectively. We will repay TFS through a combination of deposit growth and via a reduction in excess liquidity. This is currently under review in light of measures announced by the Bank of England in March 2020, which included a new funding scheme, the TFSME.

Table 11: Contractual maturity

Audited	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 2019								
Cash and balances with the BOE	**2,989**	**–**	**–**	**–**	**–**	**–**	**2,989**	**2,989**
Loans and advances to customers	**–**	**349**	**317**	**584**	**4,191**	**16,893**	**394**	**22,728**
Investment securities	**–**	**269**	**229**	**74**	**1,924**	**215**	**–**	**2,711**
Total financial assets	**2,989**	**618**	**546**	**658**	**6,115**	**17,108**	**–**	**28,428**
Other assets	**–**	**194**	**93**	**250**	**1,345**	**1**	**–**	**1,883**
Total assets	**2,989**	**812**	**639**	**908**	**7,460**	**17,109**	**394**	**30,311**
Deposits from customers[1]	**(9,668)**	**(602)**	**(1,102)**	**(1,838)**	**(1,178)**	**–**	**(161)**	**(14,549)**
Deposits from central banks	**–**	**(6)**	**(7)**	**(556)**	**(3,274)**	**–**	**–**	**(3,843)**
Debt securities	**–**	**–**	**(23)**	**(23)**	**(766)**	**–**	**–**	**(812)**
Repurchase agreements	**–**	**(54)**	**–**	**–**	**(204)**	**–**	**–**	**(258)**
Other liabilities	**–**	**(194)**	**(94)**	**(251)**	**(1,354)**	**(1)**	**–**	**(1,894)**
Total financial liabilities	**(9,668)**	**(856)**	**(1,226)**	**(2,668)**	**(6,776)**	**(1)**	**(161)**	**(21,356)**
Capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total equity and liabilities	**(9,668)**	**(856)**	**(1,226)**	**(2,668)**	**(6,776)**	**(1)**	**(161)**	**(21,356)**
Cumulative liquidity gap	**(6,679)**	**(6,723)**	**(7,310)**	**(9,070)**	**(8,386)**	**8,722**	**–**	**–**

Audited	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 BOE	2,472	–	–	–	–	–	–	2,472
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[1]	(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	–	–

[1] Deposits from customers with no contractual maturity comprises of notice accounts. These accounts continue indefinitely until the customer gives notice to withdraw some or all of the funds. Notice periods range from 30 to 100 days and customers cannot access their funds on demand, even with a penalty.

Capital management

We hold capital 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.

Risk report
continued

3. Liquidity and funding risk continued

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. We are working to ensure we are compliant with the incoming CRD V/CRR 2 requirements which were published in June 2019, mostly taking effect from mid-2021. These include requirements on the leverage ratio, market risk, and counterparty credit risk.

The MREL took effect on 1 January 2020 on an interim basis, and comes fully into effect in 2022. Holding MREL debt 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.

Table 12: Capital resources

Audited	31 December 2019 £'million	31 December 2018 £'million
Ordinary share capital	–	–
Share premium	1,964	1,605
Retained earnings	(392)	(209)
Intangible assets	(168)	(197)
Deferred tax asset (CET1 element)	–	(54)
Deferred tax liability (CET1 element)	4	7
Other reserves	11	7
IFRS 9 transitional adjustment	8	12
Total Tier 1 capital (CET1)	**1,427**	1,171
Debt securities	249	249
Total Tier 2 capital	**249**	249
Total regulatory capital	**1,676**	1,420

Recovery planning

The Recovery Plan ('RP') details a series of indicators which would tend to suggest a stress event may be in train. It assigns responsibilities and actions to key individuals, specifies timeframes, and establishes the Recovery Committee ('RC') chaired by the CFO which sits as required in the event of a liquidity stress. The RC was convened in 2019 during the periods of heightened media speculation described elsewhere in this report.

MEASUREMENT

Our asset and liability management ('ALM') system 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 RP. Colleagues monitor these on a regular basis 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 ILAAP every year for the identification, measurement, management and monitoring of liquidity, having due regard for the PRA Rulebook section 'Internal Liquidity Adequacy Assessment'. The Treasury team seeks ILAAP input from a range of teams including Finance, Risk, and Products, before taking the ILAAP through a robust governance process.

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

The Treasury function 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 MREL debt for the first time in October 2019. Our LCR has remained strong throughout the year, ending 2019 at 197% (2018: 139%).

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 business model please see pages 6 to 9

Change since 2018:
No change

Link to business model:
Low-risk diversified lending

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.

CHANGE IN YEAR

There have been no changes to the risk level during 2019. Market volatility has increased during the start of 2020, driven by global economic uncertainty resulting from the COVID-19 pandemic.

MITIGATION

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, as we shape the investment portfolio in 2020 and beyond – and are working to reduce the proportion of our assets that are ineligible for a ring-fenced entity. 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.

MEASUREMENT

We measure interest rate risk exposure using methods including:

- 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 BOE 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 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. The model also takes into account future contracted or expected growth in lending and deposits.

We measure and monitor our exposures to foreign exchange risk daily and do not maintain net exposures overnight in any currency other than pounds sterling, above 5% of our total assets and liabilities.

Risk report
continued

4. Market risk continued

MONITORING

Interest rate risk

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.

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 ROC and the Board.

Furthermore, a £15 million limit is set for a set of asymmetrical movements between LIBOR and the BOE 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.

We enter into hedging arrangements when the natural hedging in our book is insufficient to enable the Bank to remain within our limits. All derivatives are entered into macro or micro fair value hedge accounting arrangements in order to minimise volatility in the profit & loss account.

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, after applying expected non-contractual and out-of-course early repayments in line with the Market Risk Policy.

Table 13: Repricing analysis

Audited	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
31 December 2019							
Cash and balances with the BOE	2,811	–	–	–	–	178	2,989
Loans and advances to customers	4,567	639	1,505	7,961	9	–	14,681
Other assets	2,513	–	3	472	22	720	3,730
Total assets	9,891	639	1,508	8,433	31	898	21,400
Deposits from customers	(5,974)	(1,089)	(1,819)	(1,147)	–	(4,448)	(14,477)
Other liabilities	(3,855)	–	–	(795)	–	(690)	(5,340)
Shareholders' funds	–	–	–	–	–	(1,583)	(1,583)
Total liabilities	(9,829)	(1,089)	(1,819)	(1,942)	–	(6,721)	(21,400)
Interest rate sensitivity gap	62	(450)	(311)	6,491	31	(5,823)	–
Cumulative gap	62	(388)	(699)	5,792	5,823	–	–

Audited	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
31 December 2018							
Cash and balances with the BOE	2,242	–	–	–	–	230	2,472
Loans and advances to customers	5,235	579	1,184	7,186	51	–	14,235
Other assets	3,402	–	50	751	–	737	4,940
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	–	–

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.

4. Market risk continued

The table below shows the sensitivity arising from the standard 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 2019	**8.1**	**(8.2)**
At 31 December 2018	(3.4)	2.8

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 business model please see pages 6 to 9

Change since 2018:
Increase

Link to business model:
Diversified low-cost deposits

APPETITE

We have no risk appetite in relation to financial crime risk.

CHANGE IN YEAR

Financial crime risk has increased during the year due to changes to global sanctions and obligations with which we must comply.

MITIGATION

Investment in our systems and controls

We continue to conduct horizon scanning activity to identify emerging trends and typologies as well as to identify and prepare for new legislation and regulation. This includes participating in key industry forums (or associations) such as those hosted by UK Finance. As required, we will update our control framework to ensure emerging risks are identified and mitigated. We updated all our Financial Crime policies in 2019 to ensure alignment with regulatory obligations.

In 2019 we also mobilised a Financial Crime Improvement Programme to invest in and deliver enhancements to our business-wide financial crime systems and controls.

Resourcing and training

Resourcing continues to be a significant focus for us to ensure the Financial Crime Framework is implemented effectively. Headcount has increased across all lines of defence and we have recruited additional specialist resource in 2019 to support operational teams in the first line of defence and to bolster second line Financial Crime Policy, Advisory and Assurance functions. We continue to invest in our colleagues' development to improve their capabilities through industry recognised financial crime qualifications. All colleagues receive financial crime training which is updated to reflect new requirements, ensuring our colleagues are able to meet their personal regulatory obligations and assist us in achieving our risk appetite and financial crime obligations.

Sanctions

We have no appetite for non-compliance with legal and regulatory obligations in respect of sanctions.

In November 2017, on the advice of external legal counsel, we notified OFAC that we had discovered that a UK-based entity with which we had a banking relationship was subject to US sanctions relating to Cuba. We ended our relationship with the relevant entity.

In addition, in 2019 we discovered that a payment made to one of our customer's accounts, which had been received from a UK-based financial institution, had been routed to the UK-based financial institution from Iran. A further notification was made to OFAC.

We have initiated a review of the foregoing matters together with a review of our broader sanctions compliance and transaction monitoring policies and procedures with the support of external advisors, which is still ongoing. Metro Bank continues to fully co-operate with its regulators in relation to any enquiries in this regard.

Anti-Money Laundering and Combating Terrorist Financing

We have no risk appetite for financial crime and seek to comply with all relevant UK Anti-Money Laundering and Combating Terrorist Financing legislation. We continue to invest in capabilities to identify and detect potentially suspicious activity with work to enhance automated monitoring capabilities continuing through 2019 into 2020. This will improve our ability to identify suspicious activity to support external reporting obligations under the Proceeds of Crime Act 2002 and the Terrorism Act 2000.

Risk report
continued

5. Financial crime risk continued

Anti-bribery and corruption and anti-tax evasion

We comply with the UK Bribery Act 2010 and have zero tolerance for undertaking and/or facilitating bribery and/or corruption and will always avoid giving or receiving improper financial or other benefits in our business operations. We also comply with the Criminal Finances Act 2017 and have a zero tolerance approach to facilitation of tax evasion. We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. Policies and standards were revised in 2019.

Fraud

We have maintained our investment in fraud prevention and detection systems which has resulted in some significant losses being prevented, thus protecting our customers from becoming victims of fraud.

In 2019 we successfully updated our core banking platform with no increase in fraudulent activity impacting our customers. We also worked in collaboration with the telecommunications industry to enhance our controls preventing the social engineering of customers by fraudsters imitating Metro Bank.

Following the launch of our 'Be Your Own Hero' campaign in 2018, we continued to update our customers on new fraud trends as well as providing hints and tips to enable them to protect themselves from becoming victims of fraud.

We anticipate that in 2020 we will see fraudsters targeting customers through social engineering attacks and utilising our digital channels to make fraudulent payments. We have measures in place to help combat these, including technology to enable us to proactively avoid, respond, recover and learn from fraud events. We work in close partnership with our cyber security team and external cyber alliance agency in this area.

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, KPIs are defined, reported against and escalated through to the ROC. 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 compliance 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 financial crime area.

We participate in external industry forums, including being an active member of the Cyber Defence Alliance and liaise with government bodies such as UK Finance, 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 business model and strategy please see pages 6 to 9

Change since 2018:
Increase

Link to business model:
Diversified low-cost deposits
Risk-adjusted returns

APPETITE

We have no appetite for regulatory non-compliance. We aim to comply with all relevant rules, regulations and sourcebooks. We have policies and procedures in place to ensure compliance with our 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.

CHANGE IN YEAR

The range and complexity of regulations with which we are required to comply has increased, and this continues into 2020. During 2019, several key initiatives to implement regulatory changes were significantly progressed or completed. Notably, these included PSD2, High Cost of Credit and Annual Statement of Fees, alongside the implementation of new measures required by the Competition and Markets Authority ('CMA').

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.

MITIGATION

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 that 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

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.

In 2018, Metro Bank, supported by a 'big four' accounting firm, undertook a review of the classification and 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 by £900 million ('RWA Adjustment'), as announced in January 2019.

The Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') are independently investigating the circumstances and events that led to the RWA Adjustment. The FCA are also investigating disclosure relating to our application for AIRB accreditation.

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, our regulatory obligations are increasing, including the introduction of minimum requirements for own funds and eligible liabilities ('MREL'), and the second Payment Services Directive ('PSD II'), 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 to not only implement the changes but also ensure we have clear visibility of the impact of changes on our business model .

Risk report
continued

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 business model please see pages 6 to 9

Change since 2018:
Increase

Link to business model:
Unique culture

APPETITE
We have no appetite for conduct risk. We aim to provide customers with simple, fairly priced products delivered with consistently great service and convenience. We are committed to avoiding customer harm.

CHANGE IN YEAR
Conduct risk has increased in 2019, driven by changes to complaints handling processes relating to fraud and social engineering, and an increase in compensation for fraud instances.

MITIGATION
Simple and transparent products
Our simple, transparent product range continues 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 are committed to ensuring that our communications to our customers 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 gives us an inherent advantage. We are committed to doing the right thing for our customers and to making every wrong right. When we identify issues that have caused customers detriment as a result of our own actions we will seek to put these right.

In 2019 we made a provision of £12m for customer remediation, which predominately relates to non-compliance with certain requirements to provide SMS warning alerts to customers regarding overdraft charges. The error was subsequently corrected, and the CMA was informed. We pride ourselves on providing exceptional levels of service and we regret the impact on customers; any related charges will be refunded during the course of 2020.

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 forums. We also use our 'Voice of the Customer' surveys to inform continuous improvement activity. KPIs are also defined, reported against and escalated to the ROC.

MONITORING
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.

For more information on our business model please see pages 6 to 9

Change since 2018:
No change

Link to business model:
Diversified low-cost deposits

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 Model Oversight Committee ('MOC') 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 model risk.

CHANGE IN YEAR

There have been no changes to the risk level during 2019.

MITIGATION

Governance

MOC 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 MOC for approval ahead of implementation or model changes.

The MOC defines and approves standards relevant to model risk and recommends policies and model risk appetite to ROC for approval on an annual basis. The MGC owns the minimum standards and target operating models to mitigate model risk and also defines 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 from both MGC and MOC.

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

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

MONITORING

A dedicated Model Monitoring team is responsible for assessing the ongoing performance of credit risk models against pre-specified tolerances approved by the MGC as part of the model monitoring standards. Model monitoring is regularly performed and results are discussed at the MGC and MOC where actions are agreed and tracked to completion. Non-credit risk models are also subject to monitoring according to metrics and a schedule agreed at MGC but this monitoring is carried out by the user areas concerned rather than by the Model Monitoring team.

Risk report
continued

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

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.

COVID-19 PANDEMIC

Given the inherent uncertainty over the length and scale of the pandemic it is too early to fully evaluate the impact of the situation. The short term economic disruption, and potential for longer term economic slowdown, will result in a deterioration in credit risk profile and higher than expected credit risk impairments. Additionally the situation has the potential to increase both the likelihood and impact of our other key risks including operational, market and funding and liquidity risks although there has been no immediate significant increase in our risk exposure in these areas. Our mitigation approach to all our key risks is outlined through pages 22 to 37 and these mitigants will support the Bank in managing the effects of the pandemic.

We continue to focus on supporting our colleagues and customers through this period and the initiatives we have introduced, including providing temporary forbearance as well as participation in other Government support measures, should also assist in reducing the potential impacts.

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.

Operational resilience will remain high on the regulatory agenda, with regulatory supervision activity expected in early 2020. The BOE, FCA and PRA have, on 5 December 2019, released a shared policy summary and co-ordinated consultation papers on requirements to strengthen operational resilience in the financial services sector, further indicating that this is a key priority for 2020 and beyond.

CULTURE AND PEOPLE

We know that our unique culture is what sets us apart. Our focus on exceeding customers' and colleagues' expectations by delivering consistently great service creates an emotional attachment to our brand. Achieving this culture is dependent on attracting and retaining the right people.

Given the challenges in 2019, there is a risk that we may not retain or attract colleagues in key roles that will support execution of the Bank's revised strategy. To address this, we are continuing to invest in our people and culture to ensure Metro Bank remains a great place to work.

ECONOMIC CONDITIONS: BREXIT

The UK economy continues to face uncertainty resulting from the UK's decision to leave the EU ('Brexit'), which took effect on 31 January 2020. 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. The impacts will not be immediately visible, but will affect the economy over the months and years to come.

Underlying economic performance across the UK has, since the referendum, been better than initially projected. In 2019 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 headwinds 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 the 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.

CLIMATE CHANGE

During 2019, as part of its Future of Finance project, the PRA indicated its initial expectations of firms on the subject of managing the financial risks arising from climate change. It expects firms to take a strategic approach which will consider how actions taken today affect future financial risks. Firms are asked to embed climate change considerations in their risk management and day-to-day operations.

Examples of how this may affect Metro Bank include:

- Change in risk on lending portfolios secured on property, arising from heightened energy efficiency standards in domestic and commercial buildings
- Technology changes such as development of electric vehicles or renewable energy technology which may affect the value of financial assets in these sectors (albeit Metro Bank does not hold any assets of any such companies as at 31 December 2019)
- Businesses to which Metro Bank has lent money may fail to adapt, disclose or mitigate the risks arising from climate change which can result in climate-related litigation and may affect their ability to repay loans when they fall due

We have also observed activist investors/shareholders attempting to influence other banks to withdraw or not offer services to clients considered to be contributing to the climate crisis.

The time horizons of the crystallisation of these risks are uncertain, but the scope and magnitude of risks from climate-related factors are likely to depend on future scenarios – however, these will, at least in part, be determined by actions taken today. Where action taken is insufficient or too late to achieve climate goals, there is potential for severe financial impacts to Metro Bank. Whilst these risks may be mitigated by an orderly transition to a low-carbon world, there can be no certainty that all relevant parties will act in sufficient time.

We do not currently lend to carbon-intensive industries, nor do we lend to project finance initiatives and we have no plans to do so. As a community-focused bank we know that climate change risk is becoming of increased importance to many of our stakeholder groups and as such are developing our approach towards it. This includes working towards ensuring that climate change forms part of our stress-testing scenarios.

Our stakeholders

SECTION 172 STATEMENT

The Board considers the following stakeholder groups relevant when making decisions and these are aligned with the stakeholder groups which are material for ESG purposes:

Our FANS	Our business model depends upon attracting customers and turning them into FANS. Our reputation and creating FANS is at the core of our values.
Our colleagues	As a growing business we need to attract new talent. We also want to ensure our existing colleagues are happy and engaged so that they provide excellent service to each and every customer.
Our investors	We engage openly and transparently with our investors, who are helping us to grow and shape the Bank for the future.
Our communities	We are proud to be an integral part of the communities we serve.
Our Regulators	Following our Regulators' Principles, Rules And Guidance helps us to put FANS at the heart of everything we do.
Our 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.

The Board recognises that the long-term success of the Bank will depend upon the interests of all our stakeholders and this view is intrinsic to our decision making. This year the Board spent a lot of time debating the future direction of the Bank and details of our new strategy can be found on page 10. The Board ensured in-depth oversight of the process and set up a Strategic Review Committee to help manage this. An outline of our stakeholders and how they were taken into account when making the Board's principle decisions in 2019 can be found on pages 41 to 43.

Metro Bank's culture is what sets it apart from other banks and our AMAZEING behaviours (as set out on page 44) underpin this. These behaviours are embedded throughout the organisation and ensure that all colleagues are mindful of doing the right thing for all our stakeholders. The Board has oversight of these behaviours and monitors how they are being lived through results of; the Voice of the Customer Survey, Voice of the Colleagues Survey and reports of expressions of dissatisfaction from our customers.

The Board takes all stakeholders into account when making decisions. No two decisions are the same, and the interests of our stakeholders need to be carefully balanced with the needs of the Bank. To ensure the Board has the right information to do this, in early 2020 we updated our Board paper templates to ensure that management provides as much information as possible as to which stakeholders will be impacted and in what ways. We know we have more work to do in this area and we will work to continually refine and improve the information provided to the Board, to help them make the best possible decisions, for the Bank and its stakeholders.

When Directors join the Board they are given a detailed and bespoke induction, and this includes a comprehensive introduction to Director duties.

All Directors also took part in refresher training this year, which reviewed their duties under s.172 amongst other governance and regulatory matters.

The Board discharges its duty to maintain a reputation for high standards of business conduct by having oversight for the policies and procedures by which the Bank is run. More information on these policies can be found in the table on page 49. Information on the reporting up to the Board on modern slavery can be found on page 48.

The annual Board evaluation enables Directors to feed back to management on whether they are receiving the right amount of information to enable them to discharge their duties under S.172 and the opportunity to set out information which they would like to better inform their decision making.

Stakeholder engagement

FANS

Stakeholder engagement during 2019

At Metro Bank we encourage customer feedback and customers are regularly invited to complete a survey to let us know their thoughts. The 'Voice of the Customer' surveys are analysed and the data is provided to the Board to help them make decisions on how we can continue to create FANS.

The Board also received regular updates and analytics on expressions of dissatisfaction to help them understand areas that require improvement and debate opportunities for innovation.

For more information on our FANS and how we engaged with them in 2019, go to page 44.

Key considerations and/or outcomes on principal decisions

During 2019 we were pleased to announce the launch of several initiatives which focus on enhancing customer experience and convenience.

Initiatives included MCash, the new on-demand cash collection and delivery service, and Business Insights, the artificial intelligence-led, in-app account insights tool for business customers.

Colleagues

Stakeholder engagement during 2019

We know that you can't be people-people without AMAZEING colleagues. As a growing business we constantly need to attract new talent and want to ensure our existing colleagues are happy and engaged.

During a period of significant change for the Bank in 2019, colleague communication has increased to ensure colleagues feel informed and are best placed to help our customers. This is done through:

- 'Voice of the Colleague' surveys
- Have your say cafés, colleague meetings with leaders
- Online Q&As with leadership (Yam Jams)
- Internal news (Revolution Updates)

This year, Stuart Bernau took on the role of the Non-Executive Director, responsible for workforce engagement. Action taken following feedback from colleagues throughout 2019 can be found on page 50.

For more information on our colleagues and how we engaged with them in 2019, go to page 44.

Key considerations and/or outcomes on principal decisions

When making decisions, the Board takes the impact on colleagues very seriously. They receive regular updates on colleague attrition, stress and sickness levels and the outcomes of the 'Voice of the Colleague' survey to help decision making.

We recognise that as we grow so does the demand on our colleagues and a major factor on all decisions is the impact of increased workload on our people. We try to ensure that the roll out of new projects, such as the upgrade to our core banking systems, is timed appropriately to ensure that no undue pressure is put on colleagues.

Our stakeholders
continued

Communities

Stakeholder engagement during 2019	Key considerations and/or outcomes on principal decisions
Our communities bring Metro Bank to life and our stores are an important part of our growth. During 2019 we continued to engage through: • New store grand opening • Money Zone, our educational programme • Networking and community events • Days to AMAZE volunteering For more information on our communities and how we engaged with them in 2019, go to page 46.	The Board approved the opening of six stores during 2019 and met with the people in our communities at Grand Openings. In deciding where to build new stores we take into account where we can reach the most people so that we can continue to offer convenient banking at a time that suits our FANS.

Investors

Stakeholder engagement during 2019	Key considerations and/or outcomes on principal decisions
In a difficult year for the Bank, it has been more important than ever to engage with our investors and to share our vision for the future and understand their concerns. This year the Board met with investors at: • the 2019 Annual General Meeting; • the General Meeting where investors voted to approve a £375 million equity raise; • quarterly results meetings; • investor roadshows and conferences; • proxy adviser and institutional investors meetings; • governance breakfasts; and • post 2019 AGM engagement via letter, phone calls and face-to-face meetings.	The Board proactively engaged with investors in advance of our equity and debt capital raises during 2019. The Chairman and the Senior Independent Director ensure that the feedback from shareholders is fed back to Board meetings and this is a key consideration in our decision making. We also carried out a programme of engagement following our 2019 AGM to understand the rationale for voting against those resolutions which received less than 80% of votes in favour. More details about how we engaged with our investors following this can be found on page 63. The Board recognises why investors value independence and diversity on Boards and this year was pleased to announce several new appointments. More information on the Board and appointments in 2019 can be found on page 59.

Regulators

Stakeholder engagement during 2019	Key considerations and/or outcomes on principal decisions
The Board and management have held regular meetings with the Prudential Regulation Authority, Financial Conduct Authority, Payment Systems Regulator and Bank of England and we have open, transparent and constructive relations with our regulators. Complying with the relevant rules and regulations is of the utmost importance in Board decisions.	We have consulted with the PRA and FCA on all major Board changes in the year. We have also created a Regulatory liaison function and as part of that have brought in external Subject Matter Experts to manage the relationship with the FCA and PRA on an ongoing basis. We also frequently engaged with the FCA and PRA on day to day business matters. The Board was pleased to issue a £350 million MREL-eligible debt issuance in October to ensure continued compliance with the relevant regulation as well as an equity capital raise in June.

Suppliers

Stakeholder engagement during 2019	Key considerations and/or outcomes on principal decisions
Engagement with suppliers starts at the procurement stage and the relationship is then continually reviewed through meetings and site visits. For more information on our suppliers and how we engaged with them in 2019, please go to page 48.	In 2019, the Board announced its decision to move away from the provision of branding marketing and architectural design services by InterArch. As part of this decision the Board has considered the views and interests of wider stakeholders, including the regulator, investors, colleagues and customers. The Board has also received regular updates on the tender for these services by new suppliers. The Audit Committee reviews the Group's supplier payment practices and, as required by law, we publicly report this information on a bi-annual basis. For the last reporting period between July and December 2019, we had an average time for paying invoices of 29 days. We continue to review and improve processes to enhance payment terms and reduce invoice volumes.

In addition, the Board took the interests of all stakeholders into account when agreeing on the new strategy for the Bank. More information on our new strategy can be found on page 10. In considering the new strategy the Board considered all its stakeholders and how any transformation work would affect them. The Board is satisfied that the new strategy continues to enhance products and channels for our FANS and supports colleagues to enable them to deliver the highest levels of customer service every day. The Bank is a proud member of the communities we serve and this will remain essential to our long-term plan. The Board is also confident that the new strategy will deliver acceptable outcomes for investors and suppliers and will ensure that the Bank remains compliant with the relevant rules and regulations set out by its regulators in the long term.

Our stakeholders

continued

OUR PRIORITIES

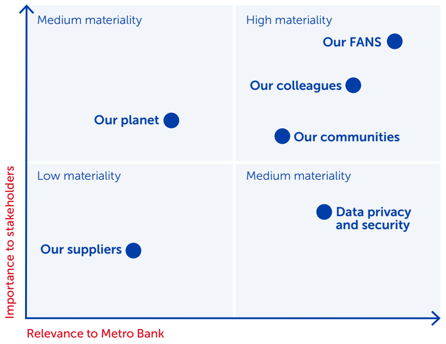
Our approach to environmental, social and governance ('ESG') policy at Metro Bank is simply about doing the right thing. As a growing bank we have the opportunity to build a bank that puts FANS first and supports our local communities while being open and transparent about our responsible business activities. Our AMAZEING values are aligned to this and underpin our belief that we should act with integrity, whilst being the most professional bankers.

Oversight of ESG is at 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.

MATERIALITY

The following matrix shows our material ESG priorities which inform our reporting on responsible business. The matrix outlines the potential risks and opportunities that might inform the decisions we make. Our priorities for this year remain unchanged:

- Our FANS;
- Our colleagues;
- Our communities;
- Data privacy and security;
- Our planet; and
- Our suppliers.



Our FANS

As we have grown over the last 10 years, one thing has remained the same and that is our commitment to great customer service. Turning customers into FANS is at the heart of everything we do and we will continue to keep our products simple and our rates and charges transparent, with stores open 7 days a week and open from 8am-8pm on weekdays.

Our mobile and online service achieved the top spot in the CMA's Service Quality Survey among personal and business current account holders in February 2020; we also ranked in the top two for overall service and store service for personal and business customers. We were also awarded 'Best All Round Personal Finance Provider' at the Moneynet Personal Finance Awards 2019.

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.

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.

Our Colleagues

Our culture and our AMAZEING behaviours are at the heart of our business. Our colleagues learn about this on their first day through our cultural engagement 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 are based. This year we are proud to say that we have won a number of awards, including 'Most Inclusive Organisation' at the British LGBT+ Awards 2019 and have been shortlisted for the following: 'Best Large Organisation for business culture' and 'Best Learning Initiative' at the Business Culture awards, 'National Top 10 LGBT+ Network' at the British LGBT+ Awards 2019 and 'Social Mobility Initiative of the Year Award' at the European Diversity Awards 2019.

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**

COLLEAGUE NETWORKS

Our colleague networks include Women on Work ('WOW'), Mpride for our LGBT+ colleagues, Mbrace for our Black, Asian and Minority Ethnic ('BAME') colleagues and Mparents for all working parents, parents-to-be or non-parents. All groups are open to all colleagues, regardless of race, gender or sexual orientation and all have the aim of helping everyone to be their very best. The networks hold a variety of internal and external events that provide support to network members and raise awareness across our business.

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.

ETHNIC DIVERSITY AT METRO BANK

Asian British	25.1%	Mixed Other	2.2%
Asian Other	7.6%	White British	40.6%
Black British	6.8%	White Irish	0.7%
Black Other	2.0%	White Other	8.9%
Mixed British	2.4%	Undisclosed	3.7%

SOCIAL MOBILITY

We are incredibly proud of the work we have been doing on social mobility. As well as being shortlisted at the European Diversity awards, we work with a range of charities and organisations including the Armed Forces Covenant, 'Switch the

Play', the Mayors Fund and Code 4000. We signed the Armed Forces Covenant and were assigned Bronze status. We ran Business Insights days for 'Switch the Play', who offer support to elite and aspiring athletes and players as they transition to a life outside of sport. We also ran monthly Business Insights days with the Mayors Fund supporting young people from low income backgrounds. Finally, in 2019 we recruited our first colleague through the Code 4000 programme, supporting offenders to return to work.

GENDER REPRESENTATION BY GRADE

	Executive leadership team	Senior managers	All colleagues
♀	4 (50%)	23 (34%)	1,662 (46%)
♂	4 (50%)	44 (66%)	1,921 (54%)

GENDER DIVERSITY

In line with the Hampton-Alexander Review, we have made good progress with our gender diversity on the Board, with 30%, as at the date this report, of members being female (2018: 17%). We have also exceeded its target of 33% of female representation on the Executive Leadership Team and Senior Leadership Team (direct reports to the Executive Team) and we are proud to be a signatory of the Women in Finance Charter.

During 2019 we published our gender pay gap figures for the second time, in line with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and details can be found on our website.

For more information please visit metrobankonline.co.uk.

Further information on our gender pay gap figures can be found in the Directors' remuneration report on pages 79 to 106.

We have a range of initiatives focused on supporting women into leadership roles. As well as our WOW network, we run mentoring circles, leadership seminars on key topics and provide diverse candidate shortlists to hiring managers. We also offer flexible working arrangements and 14 weeks' parental leave for all new parents, regardless of gender.

We have also signed the Investing in Women Code which is a commitment to support the advancement of female entrepreneurship in the United Kingdom by improving female access to tools, resources and finance from the financial services sector.

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. Each year we run a 'Voice of the Colleague' engagement survey. In our 2019 survey, over 85% of colleagues took the time to share their views. The Executive Leadership Team and the Board closely monitor the results of the survey and the text analytics review to continuously improve our colleagues' experiences.

Headlines from this year's survey:

- 91% of colleagues feel Metro Bank is an inclusive employer and that they can be themselves at work
- 92% of colleagues feel Metro Bank is a good place to work
- 92% of colleagues feel encouraged to escalate an issue or 'bump it up'
- 94% of colleagues understand how their business area contributes to the overall success of Metro Bank.

During 2019 we appointed Stuart Bernau as the designated Non-Executive Director for workforce engagement. More information on workforce engagement in 2019 can be found on page 50.

DEVELOPING CAREERS

During the year, we created over 700 new jobs and promoted more than 630 colleagues. We're committed to supporting colleagues and investing in their careers, and over the past 12 months have helped 126 new leaders 'Learn to Lead', supported over 247 colleagues on fast-track schemes and specialist studies, and enabled 380 colleagues to gain professional banking qualifications.

In 2019, we welcomed a second cohort of colleagues onto our MSc programme in Retail and Digital Banking, which we set up with Cranfield School of Management in 2018. The first year saw 25 colleagues complete the first year of a two-year part time degree. A fifth of colleagues who signed up in 2018 have also since gone on to achieve promotions within the Bank. The course is a fully funded master's programme, and the UK's first masters'-level apprenticeship for senior banking professionals, funded from the Apprenticeship Levy. This year, for the second cohort, the opportunity to join the programme was opened up to applicants from other banks, who will be learning alongside our colleagues.

We also continued to support the cashier apprenticeship programme which saw 50 apprentices graduate, a number of whom achieved a distinction.

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

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.

In 2019, we engaged an independent third party to set up a confidential hotline where colleagues can raise concerns.

We have developed, and are committed to, our Recruitment and Selection Policy, which outlines our responsibilities in accordance with recruitment-related legislation, regulation and our objectives.

Our stakeholders
continued

Money Zone

We are very committed to playing an active role in supporting the communities where we operate. A very important part of this is Money Zone, our financial education programme for children.

Money Zone teaches primary school children how money, banking and personal finance work. The programme consists of four fun-packed sessions, which are ideal to be incorporated to schools' personal, social and health education curriculum and are linked to the wider government curriculum guidelines.

The first three sessions are provided by one of our colleagues and take place in the children's classroom. The fourth session takes place at one of our stores, where children get to meet real Metro Bank cashiers, step inside a vault, experience our Magic Money Machine and more.

In 2019 our colleagues hosted over 1,500 Money Zone events, where they taught over 45,000 Stage 2 (Years 4 and 5) pupils financial skills, helping them understand how money, saving and banking work. Children got to learn about different types of banking accounts, basic tips for managing money, and other useful tools to help shape a money smart generation.

HEALTH, SAFETY AND WELLBEING

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

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 People Partners have also had Mental Health First Aid training to support with colleague conversations.

Our Communities

During the year we have opened six new stores, and were proud to bring the revolution in British banking to the Midlands, the North and into Wales. We strive to make a positive difference: through the local colleagues we employ, the local businesses we work with and the causes we support. By helping our communities thrive we believe our business will too.

We hold a Grand Opening, where we invite the local community to come and see each new store and meet our colleagues. We also hold events throughout the year in all our stores including Halloween, Easter and Christmas craft events.

The signage and Money Zones courses are in English and Welsh in our new stores in Wales and we are also offering colleagues the chance to learn Welsh so that we can continue to surprise and delight our new Welsh FANS.

We are passionate about working with the kids in our communities and over 45,000 young people have taken part in our free financial education programme, Money Zone, during 2019. 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. We are proud to offer these courses in English and Welsh.

Our official charity partner for 2019 was Teenage Cancer Trust, chosen following a vote by colleagues in April. Our colleagues have taken part in various fundraising events through the year, raising over £100,000, and our customers have helped us support these charities through donations via our Magic Money Machines. We also supported Children in Need, with over 100 colleagues volunteering their time to stay late at our Ilford call centre to take donations.

We are proud to encourage colleagues to take 'Days to Amaze', where our colleagues give time out of their working day to support the causes close to their hearts.

As a major employer, investor and purchaser of goods and services, we make a significant contribution to the UK exchequer. We made a total tax contribution in 2019 of £123.1 million, which comprised of £78.1 million of taxes we paid and £44.9 million of taxes we collected on behalf of the government.

We recognise and value the benefits for society that arise from fair, effective and predictable tax regimes. We are committed to acting with integrity, honesty and transparency in all matters related to tax and ensure we adhere to the highest standards of corporate governance.

Data Privacy and Security

Our business is built on creating FANS and our FANS recommending us to their friends, family and colleagues. We understand how much our customers value the protection of their data and we take it just as seriously as protecting their money.

Our Chief Information Officer is accountable for the delivery of secure and resilient IT services to our FANS and colleagues. Performance is reported and monitored by the Executive Leadership Team and Board.
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.

FRAUD PREVENTION

At Metro Bank we take our customers' security extremely seriously and we have a range of safeguards in place to help defend them against fraud. We apply a multi-layered approach to fraud controls in the majority of areas, some of which are visible to the customers and others which work behind the scenes. We are constantly reviewing, updating and investing in these in light of increasingly sophisticated tactics from fraudsters. We continue to invest money into this to protect our customers.

We run our 'Be Your Own Hero' campaign to help educate customers on how to protect themselves from fraud. We also work closely with UK Finance who work across the banking industry to tackle fraud. For example, we support the 'Take Five' campaign, which encourages customers to stop and think before acting on suspicious instructions.

We were also in the first tranche of banks to sign up to the Authorised Push Payment Voluntary Code in May 2019.

BUSINESS CONTINUITY

Our model is built to ensure that customers have access to their banking when they need it, with access to our app, online banking, 24/7 telephony 365 days a year and stores open early until late 362 days a year. We work with multiple call centres, data centres and offices in order to ensure no single point of failure in our operations.

We have processes in place in the unlikely event that an incident occurs. This includes colleagues being able to relocate to other stores or locations and a call cascade tree which enables urgent messages to be passed to colleagues, including out of hours, which is tested biannually. A member of the management team is also on call 24/7 to react to any out-of-hours incidents, who is empowered to escalate where necessary. Our Customer Support and Operational Risk teams are responsible for putting our business continuity policy and arrangements into practice.

Our Planet

As we grow, climate change is an important consideration for our future. Bringing a revolution to British banking means thinking differently and making it easy and convenient for our FANS to reduce their environmental impact and minimising our own impact on the planet is a vital part of that.

We are committed to undertaking further work to understand the risks and opportunities for Metro Bank arising from climate change. Environmental issues are important to our colleagues too and this year a group of colleagues from across different business areas have come together to form the first Metro Bank Environmental Committee. The Committee has been set up to improve colleague environmental awareness and to encourage sustainable business practices throughout the Bank.

We disclose our greenhouse gas emissions that we are responsible for in line with the requirements of the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013.

GHG emissions	**2019 (TCO_2e)**	2018 (TCO_2e)	2017 (TCO_2e)	2016 (TCO_2e) baseline year
Scope 1 emissions	**1,699**	2,306	1,312	1,160
Scope 2 emissions	**4,247**	4,064	4,668	5,044
Total Scope 1&2 GHG emissions	**5,946**	6,369	5,980	6,204
Full Time Employees (FTE)	**3,555**	3,803	3,002	2,417
Total Scope 1&2 emissions per FTE	**1.67**	1.67	1.99	2.57

This is our fourth year of GHG reporting and is aligned with our financial year, 1 January 2019 to 31 December 2019.

There has been a 0.4% increase in absolute GHG Scope 1 and 2 emissions in 2019 from the baseline year, 2016. However, when viewed as an intensity metric, our Scope 1 and 2 emissions have reduced by 34.8% per full time equivalent employee. It should be noted that some of this improvement in carbon intensity is due to changes in the energy mix used by our suppliers of electricity and some is through the decoupling of our emissions from the number of employees.

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

The methodology used to calculate our CO_2e emissions is the operational control approach on reporting boundaries as well as utilising the carbon emissions methodology as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol (GHG): A Corporate Accounting and Reporting Standard, Revised Edition. Emissions factor data source: BEIS 2019 conversion factors.

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

Scope 1 covers direct combustion of fuels, predominantly mains gas, fuel use within company-owned vehicles and hire cars as well as refrigerant use and associated fugitive emissions. Scope 2 covers the emissions from electricity purchased used on our Bank premises.

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

- reducing our plastic consumption and general waste requirements; colleagues have been given the option and are encouraged to use sustainable bamboo cups, provided by the Bank;
- coffee bins have been installed where possible to allow us to recycle coffee grounds;
- electric car chargers have been installed at our new Merry Hill store and also at our Holborn location to service our fleet vehicles. Electric car chargers will continue to be incorporated into store design wherever possible;
- an IT initiative has been rolled out to reduce the power usage of desktop computers if they are left on overnight;
- all new stores have LED controlled lighting installed, reducing energy consumption and repeat maintenance to lamps;
- all store lighting is controlled and is reduced and turned off when the store is not occupied. A roll out of motion detector installation to ensure unoccupied spaces are not illuminated has also been undertaken;
- all store AC systems are thermostatically controlled and are monitored with a monthly review undertaken to ensure correct operation; and
- all fleet vehicles will be electric or hybrid by the end of 2020 with all high carbon emission vehicles off fleet by the end of Q1.

Our stakeholders
continued

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

- working with 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 carbon footprint;
- fire fighting equipment is being replaced with new chemical-free equipment that requires fewer units and can be refilled locally; and
- where possible, replacing our bathroom taps with taps that turn off automatically to minimise water usage.

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

We believe our 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 do not currently lend to carbon-intensive industries and have no plans to do so.

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

Our Suppliers

It is important to us that we work with suppliers who uphold our values. We take this seriously at the procurement stage and throughout our business relationships and we continually review the controls put in place by our suppliers to prevent and detect data security breaches, bribery, corruption, modern slavery, child trafficking, unfair wages, unacceptable working conditions and labour rights abuse.

It is important to us that we collect details about the control environments that our suppliers operate and as a member of the Financial Services Supplier Qualification System ('FSQS') we make it as easy as possible for our suppliers to share these details with us. 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. We also conduct regular meetings and site visits to ensure that suppliers are upholding the highest standards.

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 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 way, 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 2019 we continued to follow and progress our processes to support our Modern Slavery Policy, including:

- publishing Metro Bank's third Modern Slavery statement, approved by the Board and signed by the CEO, on our website in June 2019 (metrobankonline.co.uk);
- delivering the second report of the Modern Slavery Champion to the Board in May 2019, including:
    - updating on progress against the Modern Slavery Statement and the Action Plan agreed in 2018;
    - looking to develop how we report on aspects of our business, beyond supply chains, including in relation to our customer and colleague relationships; and
    - the first review of our Modern Slavery Policy, established in 2017;
- continuing to develop FSQS to support due diligence on suppliers before contracting and ongoing during the relationship, on a risk basis. During 2019 we identified that we had 2,266 active third-party relationships. Of these 95% are UK based and 4.85% are in countries which do not rank within the Top 60 of the Modern Slavery Prevalence Index or do not have a Vulnerability to Modern Slavery score over 50 (as per the 2018 Modern Slavery Index) so are considered lower risk. We therefore focused on the remaining four suppliers who are based in higher risk countries. We undertook enhanced due diligence and as a result we have exited one supplier, are in the process of exiting a second, have received assurances from a third and are still engaging with the fourth. We also followed up on suppliers with turnover in excess of £36 million, identified as not having published a Modern Slavery Statement; if responses are not forthcoming, we will consider exiting these relationships. We have identified a number of other relationships where we consider there is vulnerability to modern slavery, including reviewing their compliance with the Modern Slavery Act 2015 and site visits to assess any red flags. In these cases, either Modern Slavery Statements were published on their website or no red flags were identified; and
- all colleagues were required to undertake modern slavery computer-based training during 2019.

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. This 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
Anti-tax Evasion	The policy sets out our zero-tolerance approach to tax evasion.	① ③
Business Continuity	The policy makes sure we are able to continue delivering services to our customers at acceptable levels if something unexpected were to happen. It addresses impacts to the continuity of critical business activities in the case of man-made disasters, natural disasters or other material events.	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 an 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

WORKFORCE ENGAGEMENT

Letter from the Non-Executive Director for workforce engagement

I was pleased this year to be appointed as the first Metro Bank Non-Executive Director for workforce engagement. During my time on the Board I have been privileged to meet so many wonderful colleagues and this was a great opportunity to engage in person, and digitally, with the workforce and deliver their feedback to my fellow Board members.

Further to the introduction of the provision in the latest UK Corporate Governance Code for the Board to have a method through which they engage with the workforce, the Board agreed that the most appropriate method for the Bank was appointing a designated Non-Executive Director. Our aim was to create an environment where colleagues could participate and have their voices heard through an authentic dialogue with leadership.

I worked closely with the Company Secretariat on this initiative and together we created a varied plan of engagement, with a view to getting across different parts of the business, and enabling an independent channel for colleagues to not only have their views heard by the Board, but ultimately with the aim of adding value to the decision making. Our activities during the year are set out in the calendar to the right. This was designed to complement the activities that the Bank already undertook, reflecting the importance that we place on colleagues being at the heart of our culture.

After attending each of the sessions and listening to colleagues, I reported to the Board during the year and this helped inform debate. At the end of the year I produced a summary report setting out the year's activities, highlighting the colleague feedback, the response management had given to the matters raised by colleagues and what further action was required, if any.

I was pleased to be able to take action on the opportunities raised by colleagues and was especially pleased with the actions taken as to how we communicate with colleagues about changes in the Bank. Following their feedback, we now include more detailed FAQs when we make changes as a business, and also hold online Q&A sessions with the ELT and myself (Yam Jams), so that we engage the workforce at the earliest possible stage. We rounded off the year with a communication from me to all colleagues on Yammer setting out the activities and progress made during the year.

It has been a busy year for the Bank with many changes and, as ever, we have taken colleagues into consideration in every decision we have made as a Board. I also attended an external roundtable session earlier in the year which was a great opportunity to reflect on the effectiveness of the work we had done so far with our peers. For 2020, as the role and engagement with the Board evolves, we look forward to engaging with our colleagues on the Bank's revised strategy in order to embed colleagues' views into our decision making.

I've thoroughly enjoyed shaping this important role in 2019. As part of the rotation of this position, I will be handing over to Sally Clark after Q1, who will continue to champion the dialogue between colleagues and the Board with the ultimate goal to ensure colleagues' views continue to impact Board debate and decision making.

Stuart Bernau
Non-Executive Director
16 April 2020

CALENDAR OF COLLEAGUE ENGAGEMENT OPPORTUNITIES IN 2019

Colleague engagement opportunities

Q1	West London Employee Forum
Q2	South East Regional Meeting Store openings
Q3	Home Counties – Regional Director meeting Online live Q&A (Yam Jam)
Q4	Store visits in the South West Internal news (Revolution updates) led by the CEO Online live Q&A (Yam Jam)

Set out below are highlights of action taken in 2019 following colleague feedback.

Employee engagement feedback

Colleague communication:
Clearer communication regarding change
Action we have taken

- FAQs circulated when communicating changes to colleagues
- Bump It Up videos dedicated to challenges faced this year
- More frequent colleague communications
- Weekly Yam Jams with the ELT

Culture
Action we have taken

- Following questions about whether our culture would change following a challenging year, we confirmed via our Revolution Updates that our unique culture, values and absolute focus on creating FANS will remain at the heart of everything we do. We remain committed to delivering exceptional customer service.

Development and progression
Action we have taken

- There continue to be many opportunities for promotion and we have invested for the second year in the MSc in retail and digital banking as well as introducing a brand new Metro Bank university platform.

2020 Areas of focus and opportunities

- Develop and approve Terms of Reference for the role
- Visit colleagues at an AMAZE Direct site
- Visit our new colleagues in the North

NON-FINANCIAL INFORMATION STATEMENT

This is our Group 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 6 to 11. Additional KPIs in relation to each of the matters listed in the table below have been disclosed on pages 8 to 9, where we believe this will assist in demonstrating the outcomes of our policies and activities during 2019.

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 39 for a description of each policy)
Environmental matters	Our Planet, page 47	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; we do however consider this an emerging risk as described further in the Risk report. 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 described in the emerging risks on page 39. As disclosed in the Our Planet section, 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 44 The Chief Executive Officer's statement (pages 3 to 5) and the description of our business model (pages 6 to 9), 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 46	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 48	• Modern Slavery • Outsourcing
Anti-bribery and corruption	Our Suppliers, page 48	• 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 18 to 39. The Risk report also describes the principal and emerging 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 49 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 Stakeholder section 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:

Daniel Frumkin
Chief Executive Officer
16 April 2020

Corporate governance overview

INTRODUCTION

I set out Metro Bank's corporate governance statement, and my first report since being appointed as Chairman (on an interim basis) in October 2019.

2019 was undoubtedly a testing year for Metro Bank, with a combination of external and internal challenges impacting our financial performance. The financial impacts of balance sheet actions taken during 2019 were difficult but necessary steps. We will continue to deliver the very best customer service, which will provide strong foundations on which to deliver our new strategy. The Board looks forward to entering this new phase of our journey to revolutionise British banking.

LEADERSHIP, SUCCESSION PLANNING AND DIVERSITY

A key focus of our governance work during the year has been to review the composition of the Board to ensure that it continues to be diverse in terms of background, skills and experience to support the strategic and operational direction of the Bank. During the year, the Board and the Nomination Committee have worked to improve the levels of independence and gender diversity on the Board and this is reflected in the makeup of our Board today. More information on this can be found in the Nomination Committee report on page 75.

Roger Farah stepped down from the Board in March 2020, Craig Donaldson, Vernon W. Hill, II and Ben Gunn stepped down from the Board in December 2019. Lord Howard Flight and Keith Carby also stepped down from the Board earlier in 2019. In addition, Stuart Bernau and Gene Lockhart will not be standing for re-election as Directors at the 2020 Annual General Meeting of shareholders to be held in May 2020. On behalf of the Board, I would like to extend our thanks to them for everything they have done over the last 10 years to build a bank so focused on serving our customers.

I am pleased to report that following a thorough and robust selection process, the Board agreed to appoint Daniel Frumkin as our permanent CEO. Since Daniel joined us last September and took over the role of CEO in January, he has made a real impact on our organisation. When we started our search, it was essential the person we appointed shared our passion for delivering the very best experience for our FANS, was someone with experience in retail banking and who had the intellect, skills and determination to lead the business. We chose Daniel because out of all the candidates we met, he was the one who could best meet all of the criteria.

We also welcomed our newest Board members, Michael Torpey and Sally Clark, on 1 September 2019 and 1 January 2020 respectively. Michael was previously Chief Executive of the Corporate & Treasury division of the Bank of Ireland and has extensive experience in senior roles across financial services. Sally was previously Chief Internal Auditor of Barclays plc and brings a wealth of audit and retail banking experience. I am delighted that they have joined us.

Following these Board changes, we have taken the opportunity to review the membership of our Board Committees regularly throughout the year to ensure the independence of the Committees and to adhere to the UK Corporate Governance Code (the 'Code'). This is reflected in the various Committee reports found in pages 64 to 106.

The Board and the Nomination Committee will be continuing our proactive search for new high-calibre independent Board members with the assistance of our executive search partners in 2020 and beyond.

NEW CHAIR SELECTION COMMITTEE

A committee of independent Directors was formed following the departure of Vernon W. Hill, II as Chairman in October 2019, to oversee the search for a new independent permanent Chairperson for the Bank. The Committee is carrying out a robust and thorough search process with the help of executive search firm Korn Ferry. The search process is ongoing at the time of writing.

GOVERNANCE

In our corporate governance report on pages 56 to 106, we aim to provide a clear and meaningful explanation of how we as a Board provide oversight of the Bank and discharge our governance duties, including how we have complied with the Code. It also outlines the governance initiatives we have undertaken during the year.

Following the implementation of the new Code on 1 January 2019, there have been some short-lived items of non-compliance with the detailed provisions of the Code. More details can be found in the corporate governance report. Following Gene Lockhart and Stuart Bernau stepping down from the Board, the Bank will be fully compliant with the Code.

SHAREHOLDER ENGAGEMENT

During the year, we actively sought to engage with shareholders following votes of less than 80% in favour on certain resolutions at our 2019 AGM, being resolutions 2 (to approve the annual report on remuneration section of the Directors' remuneration report), 7 (to approve the re-election of Stuart Bernau), 8 (to approve the re-election of Gene Lockhart) and 11 (to approve the re-election of Monique Melis).

Shareholder feedback is very important to us and we have continued to engage as we prepared for the update to our Remuneration Policy at the 2020 AGM. Details of the proposed update to the Remuneration Policy are included in the Directors' remuneration report on page 79.

The Board has continued to focus on succession planning and independence levels on the Board with a number of changes recently as outlined above. We will continue this work in 2020 and beyond.

WORKFORCE ENGAGEMENT

Stuart Bernau was appointed as our Non-Executive Director for Workforce Engagement in January 2019. Since that time, Stuart has been busy meeting colleagues from all over the business both face-to-face and via live Q&A sessions on our intranet to hear their views. Stuart has provided regular updates on the views of our colleagues to the Board and on the actions to be taken as a result. A detailed summary can be found on page 50.

BOARD EFFECTIVENESS

During 2019, we conducted an internal evaluation of the Board and the Committees. The evaluation process involved the completion of questionnaires and interviews by the Chairman and the Senior Independent Director, followed by a Board discussion of the key findings and the actions taken to address these. More information on the process and the key actions are set out on page 62. During 2020, the Board will undergo an externally facilitated evaluation as required by the Code.

BOARD OPERATION

We continue to operate a clear line of distinction between management, led by the CEO, who is responsible for the day-to-day running of the business, and the Board, acting under my leadership, which provides constructive challenge to management ensuring an open culture of debate.

During 2020, the Board will continue to engage with its stakeholders and operate in a constructive and open manner, with honesty and integrity as its core principles.

Sir Michael Snyder
Chairman
16 April 2020

Highlights

BOARD SUCCESSION AND STRENGTHENING THE INDEPENDENCE OF THE BOARD WAS A KEY PRIORITY FOR 2019 AND EARLY 2020

- Howard Flight, Keith Carby, Ben Gunn and Roger Farah retired from the Board on 1 April, 30 April, 31 December 2019 and 13 March 2020 respectively
- Paul Thandi, Michael Torpey and Sally Clark joined the Board on 1 January 2019, 1 September 2019 and 1 January 2020 as independent Non-Executive Directors
- Vernon W. Hill, II, stepped down as Chairman of the Board and Sir Michael Snyder was appointed Interim Chairman on 23 October 2019
- Craig Donaldson stepped down as CEO and Director after 10 years of leading the Bank on 31 December 2019
- Daniel Frumkin was appointed interim CEO as of 1 January 2020 and was subsequently appointed permanent CEO as of 19 February 2020

MAJOR BOARD DECISIONS

Consideration of our stakeholders and promoting the long-term sustainable success of the Company are at the centre of our Board's decision making. Further information on the Board's s172 duties can be found in our dedicated statement on page 40. A summary of the major decisions taken in 2019 is set out below:

- Reviewing and agreeing our revised strategy
- The equity capital raise completed in June 2019
- The debt capital raise completed in October 2019
- Oversight of the successful upgrade to our core banking systems
- Board composition and succession planning including the appointment of our new CEO

GOVERNANCE ENHANCEMENTS

- Appointed a designated Non-Executive Director for workforce engagement
- Strengthened our whistleblowing procedures through the introduction of an independent reporting line for anonymous reporting of concerns
- A Committee of independent NEDs was formed to evaluate the Group's strategic direction
- A Committee of independent NEDs was formed to lead the search for a new independent Chair
- Updated and approved the Board Committees' Terms of Reference to reflect the Code

Board of Directors

Sir Michael Snyder

Chairman Ⓝ

Appointed to the Board 22 September 2015

Michael was Senior Partner of Kingston Smith between 1979 and 2016, and continues to support the firm as a consultant. He is a passionate supporter of small and medium-sized businesses; having 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 is an experienced business leader, having chaired GLE Loan Finance Ltd, been Co-Chairman of the government's Professional and Business Services Council, and Chair of 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.

Daniel Frumkin

Chief Executive Officer

Appointed to the Board 1 January 2020

Daniel is responsible for leading the Bank – with a focus on driving long-term growth by delivering great customer service at the right cost, to create even more FANS. Prior to joining Metro Bank, Daniel worked in America, the UK, Eastern Europe and Bermuda. He has performed business, risk, product and commercial executive level roles throughout his career. Most recently, Daniel was Group Chief Operating Officer at Butterfield Bank, with responsibility for eight jurisdictions across the globe covering a range of business and support areas.

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.

Stuart Bernau

Non-Executive Director and Designate for Workforce Engagement Ⓞ

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.

Catherine Brown

Independent Non-Executive Director

Ⓡ, Ⓝ, Ⓞ

Appointed to the Board 1 October 2018

Catherine holds various non-executive roles including: Non-Executive Director of FNZ (UK) Limited, and Chairman and Non-Executive Director of Additive Flow Limited and The Plastic Economy Limited. Until March 31 2020, she was a Non-Executive Board Member at the Cabinet Office. Most recently, in mid-2019, she joined QBE Underwriting Limited (QBE UK Ltd), one of the world's leading international insurers, as a Non-Executive Director for the UK. 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.

Sally Clark

Independent Non-Executive Director

Ⓐ, Ⓞ, Ⓡ

Appointed to the Board 1 January 2020

Sally recently took up the position of Senior Advisor at Acin, the data standards firm for non-financial risk and controls. Previously, she was Chief Internal Auditor at Barclays from 2014 to 2019. Her role was to run the 650-strong global function providing assurance to key stakeholders on the effectiveness of the control environment at Barclays. She was passionate about helping the bank succeed through the work undertaken by Barclays Internal Audit ('BIA') and through the continuous programme of improvement within the function itself. Before that she was the Chief of Administration for BIA. Her responsibilities revolved around strategy for the function along with professional practices including QA, training and development, BIA operations and communications. A qualified executive coach and Fellow of the Institute of Leadership and Management, Sally also mentored staff within Barclays and was the ExCo sponsor for the wellbeing agenda. Sally has a track record of success in developing and executing strategy, driving operational excellence and audit delivery. She served on the Council of the Institute of Internal Auditors for three years and was Deputy President in 2018/19.

Gene Lockhart

Non-Executive Director Ⓞ

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 and 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.

Paul Thandi

Independent 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 Deputy Lieutenant of West Midlands Lieutenancy, representing the Queen in the region, and was appointed Commander of the Order of the British Empire ('CBE') in the New Year's Honours in January 2020 for his services to the economy through his 13-year leadership of the NEC.

Anna (Monique) Melis

Senior Independent Non-Executive Director Ⓐ, Ⓝ

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 & 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.

Michael Torpey

Independent Non-Executive Director Ⓐ, Ⓞ

Appointed to the Board 1 September 2019

Michael retired from the position of Chief Executive of the Corporate & Treasury division and Member of the Group Executive Committee at Bank of Ireland in August 2018. He has extensive experience in senior roles across financial services. His past appointments include: Head of Banking at the National Treasury Management Agency in Ireland; Group Treasurer at Irish Life and Permanent plc; Senior Treasury Adviser at Irish Financial Regulator; Finance Director at Ulster Bank Group; and Finance Director at First Active plc.

Retirement in 2019/20

Lord Howard Flight resigned from the Board on 1 April 2019. Keith Carby resigned from the Board on 30 April 2019. Ben Gunn resigned on 31 December 2019. Vernon W. Hill, II resigned from the Board on 17 December 2019. Craig Donaldson resigned from the Board on 31 December 2019. Roger Farah resigned from the Board on 13 March 2020. Gene Lockhart and Stuart Bernau will not be standing for re-election as Directors at the 2020 Annual General Meeting to be held in May 2020.

Key to Committees

Ⓐ Audit	Ⓡ Remuneration
Ⓝ Nomination	Ⓞ Risk Oversight

Corporate governance

GOVERNANCE FRAMEWORK

The Board has a robust and coherent corporate governance structure with clearly defined responsibilities and accountabilities. These have been designed to provide prudent oversight of the strategic and operational direction of the Bank.

CORPORATE GOVERNANCE STRUCTURE

BOARD

The Board's core role is to promote the long-term success of the Bank for the benefit of its shareholders. This requires us to:

- Determine and review business appetite for risk
- Monitor management performance in delivering that strategy
- Ensure that risk management measures and internal controls are appropriate and effective
- Oversee and monitor the embedding of and adherence to the Bank's business values
- Ensure that the Bank's financial structure, resources, talent and culture will support long-term growth. In discharging this role, the Board must also have regard to and engage with the interests of a wide range of stakeholders, including colleagues, customers, suppliers and broader communities, in order to build mutual trust and support the long-term sustainability of the business

The Executive Leadership Committees are outlined in the Risk report on page 20.

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

Good corporate governance is essential to the delivery of our revised strategy and the long-term success of the Bank. Following Gene Lockhart and Stuart Bernau stepping down from the Board in May 2020, the Bank will be fully compliant with the Code. During 2019, there were some short-lived instances of non-compliance with the Code as follows:

Code Provision	Explanation
Provision 12 – The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders.	For a very short period between 23 October 2019 and 30 November 2019, the Senior Independent Director ('SID') position was vacant when Sir Michael Snyder (previous SID) was appointed as Chairman (on an interim basis). Following consideration by the Nomination Committee and the Board, on 1 December 2019, Monique Melis was appointed as SID (on an interim basis).
Provision 19 – The chair should not remain in post beyond nine years from the date of their first appointment to the board.	Vernon W. Hill, II completed his ninth year of tenure as Chair in March 2019. He remained appointed as Chair between March and October 2019 in order to facilitate effective Chair succession planning. Sir Michael Snyder, an independent Non-Executive Director, was subsequently appointed as Chairman (on an interim basis) in October 2019. The Board has appointed a committee of independent Directors to lead the search for a new independent Chairman.
Provision 25 – Where a separate board-level risk committee (rather than the audit committee) reviews some or all of the company's internal financial controls or wider internal control and risk management systems, it should be composed of independent non-executive directors.	The Board has delegated responsibility of oversight of the Bank's risk management systems and controls to the Risk Oversight Committee (ROC). The ROC is comprised of a majority of independent NEDs. Stuart Bernau and Gene Lockhart are both longstanding members of ROC and are non-independent NEDs, due to their tenure. They were retained on the ROC to provide continuity of banking and risk management experience. They are both stepping down before the 2020 AGM.
Provision 34 – Remuneration for all non-executive directors should not include share options or other performance-related elements.	Stuart Bernau and Gene Lockhart hold historical stock option grants which are still outstanding until 31 October 2020. These were granted in 2015 prior to the Bank's listing in March 2016 and, since then, no Non-Executive Director has received share options in the Company. Our remuneration practices have therefore been compliant with this provision since listing. Stuart Bernau and Gene Lockhart are stepping down from the Board before the 2020 AGM and not will not be standing for re-election.

LEADERSHIP

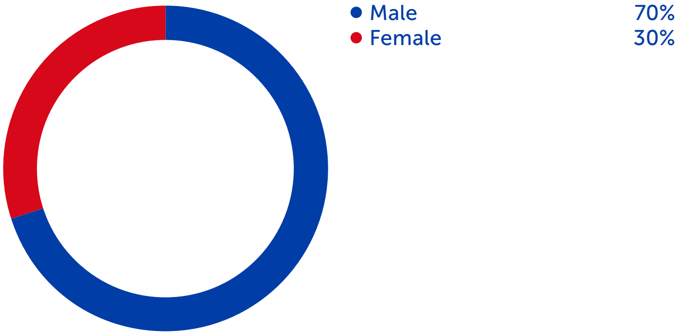
The role of the Board

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 importance Metro Bank places on the interests of its wider stakeholders, and the fact that the Bank has its customers at the heart of everything it does, is always at the forefront of the Board's agenda. This year, we are pleased that the importance of stakeholder engagement has been highlighted with the introduction of The Companies (Miscellaneous Reporting) Regulations 2018, and our s.172 Statement can be found on page 40.

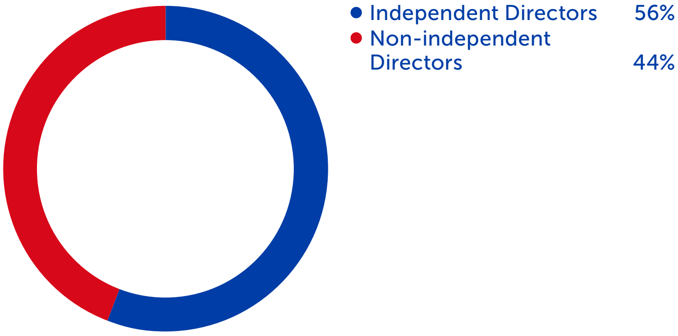
The composition of the Board

As at the date of this report, the Board consists of the independent Non-Executive Chairman, two Executive Directors (the CEO and CFO) and seven Non-Executive Directors.

Gender representation as at the date of this report



Board independence as at the date of this report



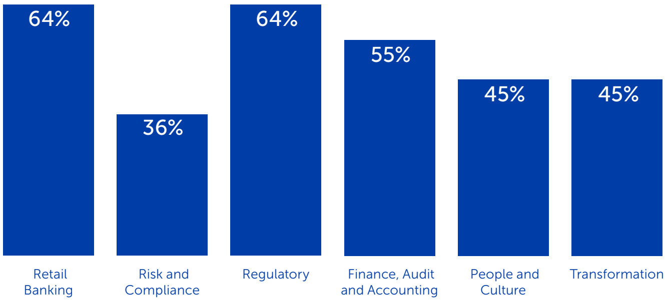
Division of responsibilities between the chair and chief executive officer

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

Board skills

The Board remains mindful of the need for ongoing succession planning, and therefore maintains a clear record of the time each Director has served the Bank and the skill-set that they provide. The Directors' skills and experience span a wide range of sectors and specialisms which is outlined below.

Board skills as at the date of this report



Corporate governance
continued

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 colleagues. 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, including leading a positive Board culture that reflects the values of the business.
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. The CEO 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 Director's ('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, 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, 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 57. 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 2019, a majority of the Non-Executive Directors (excluding the Chairman) were independent.

Gene Lockhart and Stuart Bernau have been on the Board since the Bank was granted its banking licence in March 2010 and have overseen the Bank'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, have been instrumental to the growth of the Bank. However, recognising the Code's recommendations in relation to tenure and independence, we no longer treat those Non-Executive Directors as independent. Gene and Stuart will not be standing for re-election as Directors at the 2020 Annual General Meeting of Shareholders to be held in May 2020.

Building on the work achieved in 2018, during 2019 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 further headway in refreshing the Board. We appointed three new independent Non-Executive Directors: Paul Thandi on 1 January 2019, Michael Torpey on 1 September 2019 and Sally Clark on 1 January 2020.

The Chairman is committed to ensuring that at least half of the Board (excluding the Chairman) comprises independent Non-Executive Directors who objectively challenge management. As at the date of this report, the Board, excluding the Chairman, will be made up of nine Directors, of which five (56%) are independent Non-Executive Directors, two are non-independent NEDs and two are Executive Directors. Gene and Stuart will not be standing for re-election as Directors at the 2020 Annual General Meeting of Shareholders to be held in May 2020, which will further increase the independence levels on the Board.

More information on the makeup of our Board, Committees and succession planning can be found in the Nomination Committee report on page 75.

During the year we were pleased to announce the appointment of Sir Michael Snyder as Chairman of the Bank following Vernon W. Hill, II stepping down as Chairman in October 2019. Sir Michael is serving on an interim basis until a permanent successor is appointed. Sir Michael is independent of the Bank as required by provision 9 of the Code.

The recruitment process for a permanent independent, Non-Executive Chair is progressing. An independent Committee of the Board was established to lead this process.

The Board thanks Vernon for his vision which inspired and created Metro Bank 10 years ago. He left a lasting legacy of creating FANS through exceptional customer service and has revolutionised British banking.

Corporate governance
continued

Board attendance as at 31 December 2019

The following is a list of the Board's attendance in 2019 for scheduled board meetings. There were also a number of ad-hoc meetings held on short notice to discuss matters such as strategy and Board succession planning.

	Meetings attended 2019	
	Attended	Meetings held during Director's tenure
Vernon W. Hill, II[1] (former Non-Executive Chair)	10	10
Craig Donaldson[2] (former CEO)	10	10
Sir Michael Snyder[3] (independent Non-Executive Director and Chairman)	10	10
David Arden (CFO and Company Secretary)	10	10
Stuart Bernau (Non-Executive Director)	10	10
Catherine Brown (independent Non-Executive Director)	10	10
Gene Lockhart[4] (Non-Executive Director)	9	10
Anna (Monique) Melis (independent Non-Executive Director)	10	10
Paul Thandi (independent Non-Executive Director)	10	10
Michael Torpey[5] (independent Non-Executive Director)	3	3
Keith Carby[6] (former independent Non–Executive Director)	4	4
Roger Farah[7] (former independent Non-Executive Director)	10	10
Lord Howard Flight[8] (former independent Non-Executive Director)	3	3
Alastair (Ben) Gunn[9] (former independent Non-Executive Director)	9	10

1. Stepped down as Chair on 23 October 2019. Resigned as a Non-Executive Director on 17 December 2019.
2. Stepped down 31 December 2019 and replaced by Daniel Frumkin as of 1 January 2020.
3. Appointed Chairman (on an interim basis) on 23 October 2019.
4. Gene was absent for one meeting due to medical reasons but was briefed on all matters discussed at the meeting.
5. Appointed 1 September 2019.
6. Stepped down 30 April 2019.
7. Stepped down 13 March 2020.
8. Stepped down 1 April 2019.
9. Ben was absent for one meeting due to medical reasons but was briefed on all matters discussed at the meeting. Resigned 31 December 2019.

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. 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 defined Terms of Reference with delegated specific areas of responsibility 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 is responsible for following up on any action items.

GOVERNANCE AND STRATEGY

During the year, the Board has provided extensive oversight of the Bank's business and, in particular, the setting of the Bank's revised strategy. The robust governance provided by the Board has contributed to the formulation of the revised strategy and will also monitor the delivery of this. This has been achieved by:

- appointing a committee of Non-Executive Directors to review the evaluation of strategic options;
- holding strategy deep dive sessions at Board meetings and a specific strategy meeting to analyse and challenge the pillars of the new strategy;
- through the work of the Nomination Committee, reviewing the composition of the Board to ensure this continues to be appropriate so as to provide effective oversight of the delivery of the new strategy; and
- looking ahead, adding regular strategy and transformation updates to the Board forward plan.

AREAS OF FOCUS

During 2019, the key areas the Board focused on included:

- Strategic review including the formation of a Strategic Review Committee comprising Non-Executive Directors to evaluate the Bank's strategic direction
- 2020 Budget
- Reviewing the PRA and FCA's external investigation into the RWA adjustment
- Receiving reports from the designated Board sub-committee on the internal analysis into the RWA adjustment
- Reviewing and approving all necessary matters in relation to debt and equity capital issuance
- Reviewing and approving the upgrade to our core banking systems
- Deep dive sessions on liquidity
- C&I Fund Programme
- Succession planning, governance, Board composition
- Board and Committee effectiveness review
- Reviewing annual and quarterly financial reporting
- Policy reviews and updates
- Workforce engagement
- Shareholder engagement
- Disposal of a mortgage portfolio

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 which are pertinent to their role. The Chair 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 64 to 106. 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 77. Any changes to the Committees are made after the review and recommendation of the Nomination Committee.

INDUCTION OF NEW DIRECTORS

During 2019 and early 2020, we welcomed Paul Thandi, Michael Torpey and Sally Clark to the Board. All of our new Directors undergo a formal, robust and tailored induction programme upon appointment which is agreed with the Chairman and co-ordinated 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. Directors also receive an electronic induction pack upon their appointment which includes relevant company policies and corporate and financial information. New Directors received listed company director responsibilities training from our legal advisers.

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.

EFFECTIVENESS

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. 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. Since taking on the role of Chairman (on an interim basis), there has been no change in the Chairman's other time commitments. 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.

The skills and experience of Board members are set out on pages 54 to 55 and 57. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance. We are actively seeking new independent Non-Executive Director candidates with retail banking and transformation experience and expect to make further appointments in 2020.

Corporate governance
continued

PERFORMANCE

The Board recognises the importance of, and value gained from, continuing to develop as a whole, and individually. Every year, the Board undertakes an evaluation of its performance, as well as that of its Committees and individual Directors, to ensure the Board's continued effectiveness.

INTERNAL BOARD EVALUATION

In line with the evaluation cycle and further to the last externally facilitated evaluation in 2017, an internal evaluation was undertaken in 2019. This was conducted by circulating questionnaires to the members of the Board for completion. The results were then discussed in one-to-one sessions between the Chairman and each Board member, with Monique Melis as Senior Independent Director conducting the Chairman's evaluation.

The themes explored during the process included culture, stakeholder engagement, succession planning and director duties.

Following the conclusion of the meetings, the Chairman presented the results to the Board and the Directors discussed the key findings and proposed actions to address them. Actions taken as a result of the evaluation include:

- Inviting first line representatives to Board meetings to give regular updates on the running of the Bank
- Reviewing content and length of Board papers
- Continued focus at Board level on the Nomination Committee's progress on the Board's succession plan

Progress will be considered as part of the next performance evaluation.

Executive Directors take part in the Bank's 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. Each of the Board Committees also carried out reviews of their performance, as set out in their individual reports.

We are satisfied that the Board and each of the Committees continue to operate effectively, and are pleased with the progress made from the 2017 and 2018 evaluations, particularly in respect of:

- Strengthened focus on Board composition and leadership succession planning
- Additional strategic review deep dives by forming a Strategic Review Board Committee
- Improved meeting agendas to facilitate more effective discussions
- Improved timeliness and organisation of Board papers circulated by introducing an electronic Board portal

In line with the Code, an externally facilitated evaluation will take place in 2020.

DEVELOPMENT

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations. In 2019, the Board received a briefing on cyber security from PwC, corporate governance (including s172, the new Code, ESG and horizon scanning) from its legal advisers and an internal deep dive session on liquidity. 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.

SYSTEMS OF INTERNAL CONTROL AND 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 18 to 39. 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 71 to 74.

The Board has delegated responsibility to the Audit Committee for the review of the effectiveness of internal control systems. More detail can be found in the Audit Committee report on page 66.

The Board is satisfied that internal control and risk management systems have been in place for the year under review and up to the date of approval of the Annual Report.

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 2019, 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.

During 2019, the Company had a commercial relationship with InterArch, Inc. ('InterArch'), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II (former Chairman). The Audit Committee considers this relationship on an annual basis, further to an externally facilitated benchmarking exercise by an independent third party, and again for 2019 concluded that the arrangements with InterArch were on terms which are at least as beneficial to the Bank as those which could be obtained from an independent third party.

In order to expand the suppliers used, management ran a competitive tender to identify an alternative supplier of architecture services. We are already working with new architecture providers on the transition. To enable this, we are continuing to work with InterArch to ensure a smooth operational transition by the end of 2020. Further details are set out in the Audit Committee report on page 67 and in note 35 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 during the course of their appointment, 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 2020 Annual General Meeting. Daniel Frumkin, Michael Torpey and Sally Clark will stand for election by shareholders at the 2020 AGM, this being the first Annual General Meeting following their appointments. Roger Farah retired from the Board on 13 March 2020. In addition, Stuart Bernau and Gene Lockhart will be stepping down and not standing for re-election at the 2020 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.

EMPLOYEE ENGAGEMENT

For further information on how the Directors have engaged with colleagues, had regard to colleague interests, and what the effect of this has been, including on the principal decisions taken by the Company during the financial year, see pages 40 to 51.

OTHER STAKEHOLDER ENGAGEMENT

For further information on how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and what the effect of this consideration has been, including on the principal decisions taken by the Company during the financial year, see pages 40 to 51.

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 Chairman, CEO and CFO, supported by the Director of Investor Relations. During 2019, 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, SID and/or other Non-Executive Directors to discuss any areas of concern. In addition, the Committee Chairs seek engagement with shareholders on significant matters related to the areas of their responsibility.

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.

ENGAGEMENT POST 2019 AGM

During autumn 2019, we held engagement sessions with stakeholders in preparation for our upcoming annual reporting. There was a particular focus on receiving shareholder feedback on our 2019 AGM voting results, Remuneration Policy and succession planning. The Board and senior management have taken all feedback into consideration and this is reflected in our continued focus on Board succession planning and in our updated Remuneration Policy being put forward for approval at our 2020 AGM, which can be found on pages 98 to 106. Further, we issued an updated announcement on 21 November 2019 outlining the actions taken in response to shareholder feedback.

Audit Committee report

AUDIT COMMITTEE MEMBERS

In addition to the Committee Chair, Michael Torpey, there are three members of the Audit Committee: Monique Melis, Paul Thandi and Sally Clark (who joined the Committee on 1 March 2020). Each are independent Non-Executive Directors with a range of relevant business experience. 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. For further details of their skills and experience, please refer to their biographies on pages 54 and 55. Regular attendees at the Audit Committee include the CEO, CFO, CRO, Director of Internal Audit, Director of Financial Reporting, Director of Finance Transformation and representatives from the external auditor, PwC.

In accordance with the provisions of the UK Corporate Governance Code ('the Code'), Sir Michael Snyder stepped down as Chair of the Audit Committee when he became Chairman of the Board (on an interim basis). He attended the November Committee as a guest after stepping down as a member, in order to provide continuity and facilitate an effective transition to the new Chairman. Additionally, as part of a rotation of members, Gene Lockhart, Stuart Bernau and Keith Carby stood down from the Committee on 31 March 2019 and Roger Farah stood down from the Committee on 31 October 2019.

AUDIT COMMITTEE ATTENDANCE FOR 2019:

Members	Meetings attended	Meetings held during Director's tenure
Sally Clark [1]	N/A	N/A
Monique Melis	6	6
Michael Torpey (Chair)[2]	2	2
Paul Thandi[3]	0	1
Former members		
Stuart Bernau[4]	3	3
Keith Carby[5]	3	3
Roger Farah[6]	5	5
Gene Lockhart[7]	2	3
Michael Snyder[8]	8	8

1. Sally was appointed a member of the Committee on 1 March 2020.
2. Michael was appointed a member of the Committee on 1 October 2019 and Chair of the Committee on 1 November 2019.
3. Paul was appointed to the Committee on 1 November 2019. He was unable to attend due to a pre-existing scheduling conflict but was briefed on all matters discussed at the meeting and any decisions taken.
4. Stuart was Chair of the Committee until 31 March 2019.
5. Keith was a member of the Committee until 31 March 2019 prior to him stepping down from the Board.
6. Roger was a member of the Committee from 1 March until 31 October 2019.
7. Gene was a member of the Committee until 31 March 2019.
8. Sir Michael was appointed Chair of the Committee between 1 April 2019 and 23 October 2019 when he stood down from the Committee.

2019 ACTIVITIES

- Oversight of the Regulatory Reporting Assurance Programme
- A deep dive into the Committee's duties under the Terms of Reference
- Reviewed 36 Internal Audit reports and attestations and all of the Bank's financial reporting
- Reviewed related party contracts and associated independent review
- Reviewed the banking systems upgrade programme

2020 FOCUS AREAS

- Keep under review the recommendations from the Brydon Review, and wider audit market reform
- Review Internal Audit reports and oversee an external review of the effectiveness of the Internal Audit function
- Review financial reporting and effectiveness of internal controls
- Strategy review for 2020-2024

Dear shareholders

I am pleased to present the Audit Committee report for the year ended 31 December 2019. It was my pleasure to accept the role of Audit Committee Chair when Sir Michael Snyder took on the role of Chairman of the Board (on an interim basis).

It has once again been a busy year for the Audit Committee. Our focus has been on evaluating the effectiveness of the Bank's control environment and ensuring it is fit for purpose, work which will continue in 2020. We also devoted considerable attention to the oversight of the regulatory reporting assurance programme. Metro Bank appointed Sam Brayshaw in 2019 in a newly created role as Director of Finance Transformation. Sam led the regulatory reporting assurance programme and attended Committee meetings on a regular basis to provide updates. As a consequence we are pleased to confirm that this undertaking is now complete and the Board has received a reasonable assurance opinion from PwC on the 2019 CET1 and total capital ratios. This gave the Committee an invaluable first-hand insight into the work being undertaken. More information on the programme can be found later in the report on page 67.

During the year, the Committee continued to provide challenge and scrutiny on financial reporting, including in relation to impairment and write-off of certain intangible assets, the derecongition of deferred tax assets and the categorisation of costs related to remediation and transformation, fulfilling our role supporting the Board in evaluating the appropriateness of financial reporting.

The Committee has overseen the delivery of the 2019 Internal Audit Plan. We provide significant challenge to management and scrutiny over actions through review of the Internal Audit reports, and where findings are not satisfactory, take a robust stand. The relevant ELT member is then invited to the Committee to discuss the findings and a timeline for completion of remedial actions.

In developing the Internal Audit Plan for 2020, 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 2020 Internal Audit Plan was approved by the Board in January 2020 following discussion at the Committee and it also approved the level of risk assurance contained within the plan. As the Bank revises its strategy, I will ensure that the Internal Audit assurance reflects the changes in risk profile as appropriate.

Further to the disclosures last year, the Bank's relationship with InterArch, Inc. ('InterArch') is now evolving and we are now transitioning away from our working relationship with them. During the year, the Committee undertook independent evaluation of the contracts for services with InterArch. This included oversight of the review carried out by an authoritative independent third party, further details of which can be found on page 67.

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

The Audit Committee met nine times in 2019. Following each meeting, the Chair in post provided a verbal update to the Board on key issues and, where necessary, outlined the actions being taken by management to address any issues raised. The minutes are also included in the next Board pack. I meet on a regular basis with the external audit partner, and the Committee members have time as required with the external auditor at the end of each meeting, without the presence of management.

During the year and up to the date of this report, we had a healthy rotation of Committee members (more detail on which can be found later in this report) as the Board and the Nomination Committee has consistently focused on succession planning to ensure the Committee's composition meets the requirements of the Code and has the requisite expertise. As such, I would like to take this opportunity to thank both Sir Michael Snyder and Roger Farah for their valued contributions to the Committee's work. I'm also delighted to introduce Sally Clark who joined the Committee on 1 March 2020. Sally brings a wealth of knowledge as a result of her executive roles, most recently as Chief Internal Auditor at Barclays plc.

In 2020 and beyond, the role of the Audit Committee will be to continue to ensure the control environment of the Bank keeps pace with evolving strategy.

Michael Torpey
Audit Committee Chair
16 April 2020

Audit Committee report
continued

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 all reports on the Bank from the Internal Auditor
- Review management's responsiveness to findings

Financial and narrative reporting

- Monitor the integrity of the financial statements and formal announcements relating to the Bank's financial performance.
- 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

- Review the adequacy and security of whistleblowing arrangements
- Review the Bank's systems and controls for the prevention of modern slavery and receive reports on non-compliance

Internal controls and risk management

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

KEY AREAS DISCUSSED AT AUDIT COMMITTEE MEETINGS IN 2019

Area	Key topics
Policy	• Annual report on the systems and controls in place for whistleblowing, including considering the new external whistleblowing mechanism • Share dealing policy • Non-audit services policy
Financial reporting	• Review quarterly financial reporting • 2019 half-year results, including an update of critical accounting judgements and estimates • 2018 full-year results, Annual Report and Accounts, including assessment of the key judgements and estimates, going concern and viability report • Review of IFRS 16 and accounting considerations for the C&I Fund • Prospectus review relating to the Bank's capital raise • Tax strategy • Deferred tax asset review • Review and challenge carrying values of certain intangible assets
Internal Audit	• Review of the 2019 Internal Audit reports, and any remedial action plans • Review of the 2020 Internal Audit Plan
External audit	• 2019 External Audit Plan, engagement terms and fees • Terms of engagement for the half-year review • External auditors' half-year review findings • 2018 full-year external auditors' report and findings
Related party review	• Independent review of the InterArch architectural design services

Area	Key topics
Regulatory and governance	• Ongoing remediation of the regulatory reporting framework (including reports from PwC on capital ratios) • Modern Slavery statement and annual report on the operation and effectiveness of the systems and controls in place for the Modern Slavery Policy, as well as regular updates from the General Counsel • Terms of Reference ('ToR') reviewed and recommended to the Board for approval • Full review of the Committee's duties under its ToR • Supplier payment practice reporting • Committee performance evaluation • C&I Fund updates • Fraud 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. The Committee also discussed the FRC's IFRS 9 Thematic Review published in October 2019, which highlighted that our 2018 annual reporting disclosure was an example of better practice.

Throughout the year the Committee has continually evaluated its effectiveness and this has included a full review of the Terms of Reference and an in-depth review of its duties and how these were met throughout the year. The Committee was satisfied that it had met all its duties during the year and was well placed to deliver on the same in the following year. There is a continued close collaboration with the Risk Oversight Committee, and both Terms of Reference have been reviewed to ensure that each Committee's distinct responsibilities are clearly articulated.

COMMITTEE EVALUATION

In line with the Board's annual cycle for evaluating its performance and that of all Committees, the Chair led an internal evaluation of the Committee's performance at the end of the year. A questionnaire was circulated and the Chair led a discussion on feedback at the November meeting. Overall, the members were in agreement that the Committee was continuing to operate effectively.

RELATED PARTIES

During the year, architectural design services and branding, marketing and advertising services were provided to the Bank by InterArch – a firm owned by Shirley Hill, wife of Vernon W. Hill, II (former Chairman).

In order to ensure that the contracts for services with InterArch were materially consistent with those that could be obtained from an independent third party, the contractual arrangements were subject to an independent annual review arranged by the Committee. As part of this review, a detailed benchmarking review of the architectural design contract, which covers the build and design of our stores, is conducted by a big four professional services firm. To provide assurance that the contract remains 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 independent benchmarking review and remain satisfied that the contract for services with InterArch was at arm's length and at least as beneficial as those which could be obtained in the market from an alternative supplier.

As disclosed in last year's report, in order to expand the suppliers used, management ran a competitive tender to identify an additional alternative supplier of architecture services. We are already working with new architecture providers on the transition. To enable this, we are continuing to work with InterArch to ensure a smooth operational transition by the end of 2020.

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.

IMPAIRMENTS AND WRITE-OFFS

During the year the Group impaired and wrote-off £68 million of intangible assets. This relates to the discontinuation of certain work-in-progress or older IT projects that do not form part of the Group's revised strategy. As some of these assets had previously qualified for R&D tax relief, the R&D deferred tax liability has been adjusted to reflect this.

DEFERRED TAX ASSETS

During the year the Group derecognised £53 million of deferred tax assets relating to unused tax losses. This reflects the revised outlook for the Bank's profit and the evidence of recoverability.

REMEDIATION OF THE REGULATORY REPORTING FRAMEWORK

Throughout 2019, the Committee provided oversight and robust challenge to progress made in the remediation of the regulatory reporting challenges that had been highlighted to the market. Through such oversight, the Committee was able to ensure that a sustainable solution was identified and progressively embedded for prudential reporting, underpinned by a comprehensive controls framework, improved data and upgraded systems. Further to the commitment made to the market in February 2019 to externally assure our RWAs, we are pleased to confirm that this undertaking is now complete and the Board has received a reasonable assurance opinion from PwC on the 2019 CET1 and total capital ratios.

Audit Committee report
continued

The work the Bank has undertaken, including significant investment of time and resources, supplemented with specialist advice and external assurance, allows the Bank to demonstrate to the market that last year's RWA misreporting was taken seriously. On the basis of a materiality threshold of 35bps, meaning that a misstatement of the capital ratios of that level or greater would be considered material, the Bank confirms that its capital ratios are materially correct.

FAIR, BALANCED AND UNDERSTANDABLE

In line with the Code, the Committee considered whether the 2019 Annual Report is 'fair, balanced and understandable and should provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy'. The Committee is satisfied that the 2019 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 2019 Annual Report and Accounts which was managed by the CFO 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 Committee of the draft 2019 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
- The preparation of a going concern and viability statement that highlighted the profitability, capital and liquidity position of the Bank over the planning period to 2024.

INTERNAL AUDIT

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

- 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 2020

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

SYSTEMS OF INTERNAL CONTROL AND RISK MANAGEMENT

Details of the Bank's risk management framework are provided on pages 18 to 39. In considering the effectiveness of internal controls, the 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 Committee.

Financial risk management processes and controls are in place and there is assessment of the effectiveness of our internal controls on an ongoing basis. The internal controls framework encompasses all controls, including those relating to: financial reporting processes; preparation of consolidated Group accounts; and risk management processes, including formulation of the Group's strategic plans, budgets and forecasts, and its accounting policies and levels of delegated authority. Management regularly review key risks and the effectiveness of mitigating controls including finance governance meetings. There is an ongoing process for identifying, evaluating and managing the principal and emerging risks faced by the Bank. Recommendations for improvements to internal controls by the external auditor are monitored by Internal Audit, with progress reported to the Committee. The Committee is satisfied that internal control and risk management systems have been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

MODERN SLAVERY

The Bank has a Modern Slavery Policy that is accessible to all colleagues via the Bank's intranet. The policy outlines the Bank's zero tolerance approach to modern slavery. The Chair of the Committee is the Bank's Modern Slavery Champion. In 2019, we continued to follow and progress our processes to support our policy. We published our third Modern Slavery Statement and the General Counsel provides regular updates to the Committee on progress against our Statement and action plan.

WHISTLEBLOWING

The Bank has a whistleblowing policy that is accessible to all colleagues via the Bank's intranet. The policy outlines the Bank's whistleblowing process which enables colleagues of the Bank to raise concerns about possible improprieties in financial reporting, other operational matters or inappropriate personal behaviours in the workplace. In 2019, it was agreed by the Committee to enhance our whistleblowing processes by introducing an external confidential reporting hotline. The Committee and the Board review whistleblowing reports throughout the year and an annual report is presented to the Board on the operation and effectiveness of the systems and controls in place for whistleblowing.

EXTERNAL AUDIT

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

The 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:

- 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 Committee meeting, members have the opportunity to meet the external auditor without management present to discuss any relevant issues.

The Bank confirms that for the purposes of compliance with Article 7.1 of the Competition Markets Authority ('CMA') Order, it has complied with Articles 3, 4 and 5 of the CMA Order for the financial year under review.

INDEPENDENCE

PwC has been appointed as the Bank's external auditor 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. Following a formal competitive tender exercise during 2018, in relation to the audit for the year ended 31 December 2019, the Board approved the Committee's recommendation to put a resolution to shareholders at the 2019 Annual General Meeting to reappoint PwC, which shareholders subsequently approved.

In addition, the lead audit partner rotates every five years. The PwC audit partner is due to be rotated after the financial year ended 31 December 2020 in accordance with the FRC's Revised Ethical Standard 2019.

A resolution to reappoint PwC will be put to shareholders at the AGM in 2020.

NON-AUDIT SERVICES

The Bank and PwC have safeguards in place to protect the independence and objectivity of the external auditor. During the year the Committee approved the non-audit services policy. An additional review was undertaken in January 2020 further to the FRC's Revised Ethical Standard 2019.

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 approved in advance by the 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 pre-approval requirements outlined above may be waived for non-audit services if:

- the aggregate amount of all such non-audit services provided to the Bank constitutes not more than 5% of the total amount of audit fees paid by the Bank to its auditor during the financial year in which the non-audit services are provided; and
- such services are reported to the Committee in arrears.

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 Revised Ethical Standard 2019, the services considered prohibited include:

- Certain tax services, consultancy and advisory services
- Services that involve 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
- Certain legal services
- Bookkeeping and preparing accounting records and financial statements
- Payroll services and certain human resources services
- Services related to the Bank's Internal Audit function
- Certain valuation services
- Providing, dealing in or underwriting shares in the Bank

Under the Revised Ethical Standard 2019, permissible non-audit services are now capped at a maximum of 70% of the average of the audit fees paid in the last three consecutive financial years for the statutory audit of the Bank.

The Committee carefully monitors the level of non-audit services provided by PwC, and for 2019 this was particularly relevant in relation to the equity raise and the Bank's RWAs. In instances where PwC were engaged for non-audit services they were chosen due to their unique position and knowledge of areas within the Bank and the services 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 8 to the financial statements on page 133.

As part of the Committee's wider review of the next steps in the reform of the audit market, it will closely monitor any specific guidance as it pertains to non-audit services.

Audit Committee report
continued

SIGNIFICANT FINANCIAL REPORTING AREAS CONSIDERED BY THE AUDIT COMMITTEE

In respect of financial reporting, the Committee considered a number of key areas of judgement and estimates. The table below details the areas considered in our reviews.

Key area	Summary of review undertaken
Effective interest rates for financial instruments	Materiality of impact following refresh of assumptions.
Measurement of the credit loss allowance	During the year the Committee reviewed the measurement of the expected credit loss including ensuring that management's approach to provision remained appropriate. This included a review of a number of post-model overlays and the level of systematic reviews in place.
Recognition of provisions	The Committee considered whether there was a need for provisions in respect of both customer remediation and legal and regulatory matters. The Committee also discussed and reviewed the associated disclosures.
Write-offs and impairment testing	Over the course of 2019 the Committee discussed the impairment indicators that had arisen and the associated impairment testing undertaken. As part of this, the Committee considered the results of management's assessment of the write-offs and impairments required and whether these were appropriate.
Deferred tax assets	The Committee considered the recoverability of the deferred tax assets, specifically for unused tax losses given the updates to the Group's long-term plan.
Adjusted profit measures	The Committee considered whether management's basis for underlying profitability remained appropriate. This included a review of the items that were classified as non-underlying.
IFRS 16 'Leases'	The Committee reviewed the implementation of IFRS 16, which included a review of the new disclosures and the assumptions that have been made.
Implementation of hedge accounting programme	As part of the implementation of the Bank's hedge accounting programme, the Committee discussed the progress made with implementation and associated reporting impacts.
Deferred grant	The Committee discussed the accounting behind the successful bid to the Capability and Innovation Fund. Alongside this the Committee reviewed the decisions made in respect of the revised agreement and the subsequent accounting treatment following the outcome post year end.
Viability statement	In accordance with the requirements of the Code, the Committee undertook an assessment of the Group's viability over the assessment period. The assessment was performed considering the risks the Bank faces as well as taking account of the new long-term plan.

The Committee is satisfied that the approach taken and judgements applied were reasonable.

Risk Oversight Committee report

RISK OVERSIGHT COMMITTEE ATTENDANCE FOR 2019

Member	Meetings attended	Meetings held during Director's tenure
Gene Lockhart (Chair)	8	8
Stuart Bernau	8	8
Catherine Brown[1]	5	6
Sally Clark[2]	N/A	N/A
Michael Torpey[3]	3	3
Former members		
Monique Melis[4]	8	8
Alastair (Ben) Gunn[5]	2	2
Sir Michael Snyder[5]	2	2

1. Catherine Brown joined the Committee on 1 April 2019. She missed one Committee meeting due to a delayed flight but was briefed on all matters discussed at the meeting.
2. Sally Clark joined the Committee on 1 March 2020.
3. Michael Torpey joined the Committee on 1 October 2019.
4. Stepped down from the Committee on 16 March 2020.
5. Ben Gunn and Sir Michael Snyder stepped down from the Committee on 31 March 2019.

COMPOSITION OF THE RISK OVERSIGHT COMMITTEE

In addition to the Committee Chair, Gene Lockhart, there are four members of the Risk Oversight Committee: Stuart Bernau, Catherine Brown, Sally Clark and Michael Torpey. Catherine, Sally and Michael are independent Non-Executive Directors and Gene and Stuart are non-independent Non-Executive Directors. Non- Executive Directors who are not ROC members may attend meetings. New Directors appointed to the Board attend meetings as part of their induction programme. The CFO, CRO and CEO have standing invitations to attend as guests, unless the Chair 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 Chair to present and report on relevant topics. The Deputy Company Secretary and her team act as Secretary to the Committee.

2019 ACTIVITIES

- Reviewed and approved or recommended policies to the Board for approval
- Oversaw the review of the Bank's Enterprise Risk Management Framework ('RMF') and Risk Transformation Programme
- Oversight of the Bank's capital and funding positions, including Treasury updates with respect to prudently managing the Bank's liquidity position following periods of net deposit outflows in H1 2019
- Held 'Deep Dive' review sessions on operational and IT resilience, including oversight of an upgrade to the Bank's core banking platform, T24
- Reviewed the Bank's plans and processes in relation to Recovery and Operational Continuity in Resolution as required by the Regulator
- Provided oversight of the preparation of the Bank's Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP')
- Received regular updates on the AIRB approach to calculating credit risk application process
- The Chair and members of the Committee met with the Regulator as part of its supervision of the Bank

2020 FOCUS AREAS

- Ongoing work to enhance the Bank's financial crime control framework
- Change and execution risk relating to strategy and transformation agendas
- Embedding and enhancement of the Bank's Risk Management Framework
- Ongoing work towards AIRB accreditation
- Capital
- Liquidity

Risk Oversight Committee report
continued

Dear shareholders

I set out below the report of the Risk Oversight Committee ('ROC') for 2019.

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

The Bank's response to the external and internal challenges of 2019 is evidence of the underlying resilience within the organisation. Despite pressures from an evolving regulatory landscape, political uncertainty and profitability challenges, we reported a strong year for growth in customer accounts and continued to be recognised for our unique customer service proposition.

We took prudent actions to maintain a resilient balance sheet following the RWA adjustment in January 2019, the change in our timeframe for AIRB approval and periods of deposit outflows in the first half of 2019. The equity capital raise, senior non-preferred debt issuance and return to deposit growth in H2 2019 ensured that we entered 2020 with a strong capital and liquidity position, as well as being compliant with our interim MREL requirements. These strong foundations are further underpinned by the continued strong credit performance of our loan portfolios.

During 2019 we embarked on a Bank-wide RMF review and Risk Transformation Programme to ensure our risk management framework keeps pace with the Bank's growth. This is focused on risk-related internal systems, processes, controls and governance. As part of this work, the Committee reviewed the Bank's Risk Appetite Statements. The RMF review and Risk Transformation Programme is expected to be completed in 2020.

FINANCIAL RISK

During the year a key area of focus for the Committee has been maintaining the Bank's strong capital and liquidity positions. Consideration was given to the timing and size of the Bank's equity capital raise and senior non-preferred debt issuance to ensure the Bank maintained a robust capital position and met its interim MREL requirements ahead of the 1 January 2020 deadline.

Similarly, the Committee considered the Bank's prudent management actions that followed periods of net deposit outflows in the first half of 2019. These included loan and treasury asset disposals, slowdown in lending growth and deposit gathering initiatives, all of which have served to support the Bank's strong liquidity position.

Our CET1 ratio of 15.6%, total capital plus MREL ratio of 22.1% and LCR of 197% all demonstrate the strength of the balance sheet as we look forward to deliver the Bank's medium-term strategy.

Our loan portfolios continue to deliver strong credit performance. Our cost of risk and NPL ratios of 0.08% and 0.53% respectively continue to reflect our low risk appetite and conservative approach to lending. During the year the Committee frequently reviewed market conditions and Credit Risk Policies within the Bank's key lending segments. Looking forward, as we are targeting a faster pace of growth in consumer unsecured lending, the Committee will focus on ensuring that risk appetite remains appropriate to drive sustainable risk-adjusted returns.

OPERATIONAL RISK

Keeping our customers safe remains a key priority. To this end, during 2019 the Committee spent significant time reviewing and providing oversight of the Bank's IT and operational resilience and infrastructure.

A key part of the Committee's oversight in 2019 related to the upgrade of the Bank's core banking platform. In July 2019 we successfully upgraded T24, which provides the Bank and our customers with increased business capability and operational resilience.

During 2019 the Committee has also received reports from management on emerging non-financial risks and how these risks are mitigated.

REGULAR REPORTING CATEGORIES

In January 2019 an announced adjustment to risk-weightings on certain commercial and specialist buy-to-let loans increased RWAs by £900 million. Although the adjustment had no bearing on the credit quality of those assets, it resulted in a reduction of our CET1 ratio to 13.1% and reduced the capital surplus above our target CET1 ratio of 12.0% and the Tier 1 regulatory minimum at the time of 10.6% (now 9.6% following adjustment to CCyB).

We have learnt valuable lessons from this and made good progress in delivering an RWA remediation programme during 2019, which is expected to conclude in 2020. The Audit Committee is providing oversight of the improvement to our risk-related internal systems, processes, controls and governance around capital and risk-weighted assets.

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 status of the Bank's application for AIRB accreditation is ongoing.

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

COMPLIANCE AND CONDUCT RISK

The Committee has spent time during the year reviewing the effectiveness of the policies by which the Bank identifies and manages conduct risk, including agreeing enhanced conduct and regulatory risk appetite metrics. The Committee continues to maintain its oversight of the embedding and extension of the Senior Managers & Certification Regime within the Bank. The Committee has also assessed compliance and risk management matters raised by the Bank's regulators and the actions being taken by management to respond. The Committee continues to commission in-depth analysis of significant risk topics, which are presented by the CRO or senior risk managers.

FINANCIAL CRIME RISK

The Committee gave consideration to the ongoing and significant amount of regulatory and legislative change in relation to financial crime, including money laundering and fraud. The Committee reviewed the Money Laundering Officer's report (MLRO report) and the strategic plans focused on continuing to develop the Bank's money laundering control framework. We also continue to increase customer awareness of fraud risks. During 2019 the Committee considered the Bank's control framework and strategy to manage fraud risk within risk appetite.

Sanctions review

In November 2017, on the advice of external legal counsel, we notified OFAC that we had discovered that a UK-based entity with which we had a banking relationship was subject to US sanctions relating to Cuba. We ended our relationship with the relevant entity.

In addition, in 2019 we discovered that a payment made to one of our customer's accounts, which had been received from a UK-based financial institution, had been routed to the UK-based financial institution from Iran. A further notification was made to OFAC.

We have initiated a review of the foregoing matters together with a review of our broader sanctions compliance and transaction monitoring policies and procedures with the support of external advisors, which is still ongoing. Metro Bank continues to fully co-operate with its regulators in relation to any enquiries in this regard.

In early 2019, the Nomination Committee and Board reviewed the composition of the ROC to ensure that it continued to have the appropriate balance of skills, experience and independence. We welcomed Michael Torpey to the Committee in October 2019. Following Sally Clark's appointment to the Board in January 2020, she joined the Committee on 1 March 2020.

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 2019.

Following 10 years on the Board, I will be stepping down from the Board before the 2020 AGM. I would like to thank our customers, shareholders and colleagues for their commitment and support during my time on the Board.

CORONAVRIUS

At the time of writing, the coronavirus pandemic continues to progress. This is clearly a serious situation impacting not just the UK, but also the global economy. The position has been, and continues to be, rapidly evolving and difficult to predict with any certainty. However our immediate focus has been to support our colleagues and customers. We will continue to monitor the situation carefully. The Bank's liquidity position remains strong and we stand ready to support our customers, both borrowers and depositors, as required.

Gene Lockhart
Risk Oversight Committee Chair
16 April 2020

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 Model Oversight Committee.

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

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.

Risk Oversight Committee report
continued

Operational risk
The ROC receives reports concerning risk appetite and risk assessment for a number of key operational risks including: information security and availability, operational resilience, and the execution risk of change. The Committee has been updated on control enhancement work that the Bank is undertaking in these areas. Incidents and root cause analysis as a result of any material incidents were presented in 2019 to demonstrate how the Bank captures learnings and takes action to prevent or mitigate any potential recurrences. The view of the Committee 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.

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. The Committee receives updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and feedback from 'Voice of the Customer' surveys. The Committee is 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 and 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 the Committee also receives specific reports on Treasury risk. In addition, the Treasurer's report includes updates on relevant regulatory matters.

Litigation update
The ROC notes 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.

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

KEY AREAS CONSIDERED BY THE RISK OVERSIGHT COMMITTEE IN 2019
During 2019, we received items of business including the following:

Area	Discussion
Policy	Policies approved by the ROC: • Business Continuity Policy • Retail Mortgage Policy • Unsecured Retail Lending Policy • Private Banking Policy • Anti-Bribery & Corruption Policy • Anti-Tax Evasion Policy • Investment and Dealing Policy • Impairment Policy • Arrears Management Policy • Health and Safety Policy • Diversity and Inclusion Policy • Information Security Policy • Regulatory Reporting Disclosures Policy • Commercial Lending Policy and Commercial Lending Standards Policy • Retail Unsecured Lending Policy • Collections and Recovery Policy Policies reviewed and recommended to the Board: • Credit Risk Policy • Commercial and Business Lending Policy • Risk Appetite Policy • Compliance Policy • Sanctions Policy • Anti-Money Laundering/Combating Terrorist Financing Policy • Customer Treatment Policy • Share Dealing Policy • Recovery Plan and Capital Management Policy • Responsible Lending Policy • Enterprise Risk Management Policy • Treating Customers Fairly Policy
Regulatory	• MREL • Recovery Plan • Operational Continuity in Resolution
AIRB application	• AIRB approach to calculating credit risk application updates
Treasury	• Balance sheet resilience actions
IT resilience	• Banking systems upgrade (T24) programme
Capital and liquidity	• ILAAP document incorporating Treasury Policy and Contingency Funding Plan • ICAAP document including interest rate risk in the banking book
Deep dives	• Credit risk • Non-financial risk • Commercial property update

Nomination Committee report

NOMINATION COMMITTEE MEMBERS

In addition to the Committee Chair, Monique Melis[1], there are two members of the Nomination Committee: Catherine Brown and Sir Michael Snyder. Each are independent Non-Executive Directors. The CEO attends meetings by invitation. The People team provides support to the Committee Chair and Committee as needed and the Deputy Company Secretary acts as Secretary to the Committee. Following each meeting the Chair provides a verbal update to the Board. The Committee minutes are also included in future Board papers.

1. Subject to regulatory approval.

NOMINATION COMMITTEE ATTENDANCE FOR 2019

	Meetings attended	Meetings held during Director's tenure
Catherine Brown[1]	4	4
Monique Melis (Chair)[2]	N/A	N/A
Sir Michael Snyder[3]	N/A	N/A
Former members		
Keith Carby[4]	3	3
Roger Farah[5]	5	5
Lord Howard Flight[6]	2	2
Vernon W. Hill, II[7]	5	5
Paul Thandi[8]	3	3

1. Appointed to the Committee on 1 April 2019.
2. Appointed to the Committee on 13 March 2020, position as Chair subject to regulatory approval.
3. Appointed to the Committee on 1 November 2019. There were no meetings held for the remainder of 2019 after Sir Michael was appointed a member.
4. Stepped down from the Board on 30 April 2019.
5. Stepped down from the Board on 13 March 2020.
6. Stepped down from the Board on 1 April 2019.
7. Stepped down from the Board on 17 December 2019.
8. Stepped down from the Committee on 31 October 2019.

2019 ACTIVITIES

- The Nomination Committee oversaw and recommended the appointment of two new Non-Executive Directors ('NEDs'); Michael Torpey (who joined the Board on 1 September 2019) and Sally Clark (who joined the Board on 1 January 2020)
- We announced in October 2019 that Vernon W. Hill, II was stepping down as Chair. Sir Michael Snyder was appointed as interim Chairman and a separate Committee of independent Directors has been established to oversee the search for a new permanent independent Non-Executive Chair, working with Korn Ferry
- In December 2019 we announced that Craig Donaldson was stepping down as CEO. Daniel Frumkin was appointed as permanent CEO in February 2020
- Five NEDs left the Board during 2019 and early 2020: Keith Carby, Lord Howard Flight, Vernon W. Hill, II (former Chair), Ben Gunn and Roger Farah
- The Committee also agreed new Committee membership and Committee Chair appointments to maintain Committee independence and the appointment of an interim Senior Independent Director ('SID')

2020 FOCUS AREAS

- The Nomination Committee and New Chair Selection Committee will prioritise identifying a permanent Chair
- The Nomination Committee will also continue to focus on Board succession and independence; specifically, sourcing high-quality independent Non-Executive Director candidates with relevant 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

Nomination Committee report

continued

Dear shareholders

I am pleased to share my first report as Nomination Committee Chair since taking over from Roger Farah in March 2020.

We have made and overseen a number of changes to the Board and Committees since our 2019 AGM.

Working in partnership with the search firm Audeliss, we appointed Michael Torpey to the Board on 1 September 2019 and Sally Clark to the Board on 1 January 2020. Michael brings a wealth of experience in banking and regulation from his time at the Bank of Ireland. Sally was previously Chief Internal Auditor at Barclays, and she brings substantial banking, audit and controls experience to our Board.

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 as announced in our 2018 report.

It is great to be able to welcome new talent to the Board and to increase the diversity of background, skills and experience we have amongst our Non-Executive Directors. This continues to be an area of focus for the Committee and Board in 2020.

Looking forward, 2020 will continue to be busy for the Nomination Committee. A committee of independent NEDs is carrying out a thorough and robust search for a new permanent independent Chair. As Nomination Committee Chair and SID, I also chair the New Chair Selection Committee.

BOARD COMPOSITION, INDEPENDENCE AND TIME COMMITMENTS

We reviewed the skills, experience, independence and knowledge of the Board during 2019 to understand which areas to focus on when recruiting future Board members and the future composition of our Board and Committees.

We recognise the Code's recommendations in relation to director tenure and independence. Our Non-Executive Directors Stuart Bernau and Gene Lockhart are no longer considered independent as they reached nine years' tenure in March 2019. Both Stuart and Gene are stepping down from the Board before the 2020 AGM and will not stand for re-election.

The changes to the Board during 2019 gave us the opportunity to refresh the membership and Chairs of our Committees.

The Board carried out an internal evaluation during 2019. More details are on page 62.

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.

As a Committee and as a Board, we recognise that the diversity of our Board drives effective decision making and constructive challenge and scrutiny in the boardroom. This shapes the strategic and operational direction of the Bank. We are therefore 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.

We do not have any specific targets in relation to Board and leadership diversity and any appointments are made on merit and experience, as we seek individuals who will add significant value. We are aware of the recommendations published in the Hampton-Alexander Review for 33% female representation on all FTSE 350 Boards and FTSE 350 leadership teams (both the executive team and their direct reports) by the end of 2020. We continue to improve the diversity levels and the Board is now 30% female. We will further review our Board Diversity Policy in 2020 to ensure this remains fit for purpose and is in line with best practice guidance.

We are pleased to have exceeded the target for female representation on our leadership teams as at 31 December 2019.

Monique Melis
Nomination Committee Chair
16 April 2020

Our Board and Committee composition as at the date of this report:

Roles	Names	Comments
Board roles		
Chairman	Sir Michael Snyder	The Board (excluding the Chairman) is made up of nine directors of which five (56%) are independent Non-Executive Directors ('NEDs'), two are non-independent NEDs and the remaining two are Executive Directors.
Senior Independent Director	Monique Melis[1]	Monique Melis was appointed as SID on 1 December 2019 following Sir Michael's appointment as Chairman.
Designated NED for Workforce Engagement	Stuart Bernau (non-independent)	Sally Clark will take up the position of designated NED for Workforce Engagement following Stuart Bernau stepping down from the Board.
Independent NEDs	Catherine Brown Sally Clark Monique Melis Paul Thandi Michael Torpey	
NEDs (non-independent)	Gene Lockhart Stuart Bernau	Stuart and Gene are stepping down before the 2020 AGM will not stand for re-election.
Executive Directors		
CEO	Daniel Frumkin	
CFO	David Arden	
Audit Committee		
Chair	Michael Torpey	The Audit Committee is comprised entirely of independent NEDs.
Members	Paul Thandi Monique Melis Sally Clark	
Nomination Committee		
Chair	Monique Melis[1]	The Nomination Committee is comprised entirely of independent NEDs. The Board continues its proactive search for additional independent NEDs and we expect to again make at least one appointment this year.
Members	Catherine Brown Sir Michael Snyder	
Remuneration Committee		
Chair	Catherine Brown[1]	The Remuneration Committee is comprised entirely of independent NEDs.
Members	Paul Thandi Sally Clark	
Risk Oversight Committee		
Chair	Gene Lockhart	
Members	Stuart Bernau Catherine Brown Sally Clark Michael Torpey	

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1. These roles are subject to regulatory approval.

Nomination Committee report
continued

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 Bank's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Bank 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 Bank;
- 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

KEY AREAS DISCUSSED AT NOMINATION COMMITTEE MEETINGS IN 2019

Area	Topics
Board appointments	• The appointment of Michael Torpey as a new Non-Executive Director • The appointment of Sally Clark as a new Non-Executive Director • Review of proposed Non-Executive Director candidates
Board succession	• The Board succession plan – progressively refreshing our Board with a view to promoting diversity of backgrounds, skills, experience, and personal and cognitive strengths • Succession planning for senior management • Putting the Board succession plan into action and Board independence • Reviewed Committee Chairs and independence • Agreement of Committee memberships
Other areas for review	• 2019 Hampton-Alexander data/report • Approval of Nomination Committee report • Annual review of the Nomination Committee Terms of Reference • Proxy Adviser feedback on 2018 Annual Report and new Code requirements • Nomination Committee annual effectiveness review

Remuneration Committee report

REMUNERATION COMMITTEE MEMBERS

During 2019 the Remuneration Committee comprised Committee Chair, Roger Farah and two other members, Catherine Brown and Paul Thandi. Each are independent Non-Executive Directors. The CEO and Chair attend meetings by invitation to assist the Committee in its deliberations, although not in relation to their own remuneration. The People team provides support to the Committee Chair and Committee as needed and the Deputy Company Secretary acts as Secretary to the Committee. Following each meeting the Chair provides a verbal update to the Board. The Committee minutes are also included in future Board papers.

Since March 2020, the Remuneration Committee has been chaired by Catherine Brown, with Paul Thandi and Sally Clark as members.

The Committee has not appointed a remuneration advisor but Deloitte LLP offers advice to management who in turn advise the Committee.

REMUNERATION COMMITTEE ATTENDANCE FOR 2019

Members	Meetings attended	Meetings held during Director's tenure
Catherine Brown (Chair)[1]	3	3
Sally Clark[2]	N/A	N/A
Paul Thandi[3]	3	3
Former members		
Keith Carby[4]	3	3
Roger Farah[5]	6	6
Lord Howard Flight[6]	3	3

1. Appointed to the Committee on 1 April 2019.
2. Appointed to the Committee on 13 March 2020.
3. Appointed to the Committee on 1 April 2019.
4 Stepped down from the Board on 30 April 2019.
5. Stepped down from the Board on 13 March 2020.
6. Stepped down from the Board on 1 April 2019.

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

2019 ACTIVITIES

- The Committee oversaw 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
- We discussed the treatment of outstanding variable pay awards and variable pay outcomes for 2019 in the context of the internal analysis and external investigation into the risk-weighted assets ('RWA') adjustment and reduced the scorecard outcome as a result

2020 FOCUS AREAS

- The Committee is mindful of the changes within the UK Corporate Governance Code and executive pay reporting legislation which apply to the Bank from 1 January 2019, as well as the additional requirements under the Shareholder Rights Directive
- We have reviewed the Remuneration Policy (the 'Policy') in the context of recent developments in the external environment and our business strategy and are submitting a revised Policy to shareholders for approval at the 2020 AGM
- We have also considered our approach to remuneration for 2020 in the context of Company performance and have applied our discretion as appropriate

Remuneration Committee report
continued

Dear shareholders

On behalf of the Board, and as Chair 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 2019.

Our current policy entered its third and final year in 2019. Therefore, we will be seeking shareholders' approval for our proposed Directors' Remuneration Policy for the following three years at the 2020 AGM.

The Committee is cognisant of the views of our shareholders on remuneration matters, and following the vote on the Directors' remuneration report at the 2019 AGM, the Committee undertook a detailed review of our approach to executive pay, seeking feedback from our key shareholders and representative bodies. I would like to thank our investors for their feedback on our proposed Policy and we will continue to engage with investors and stakeholders on our approach to remuneration going forward.

As part of the engagement exercise after the 2019 AGM, the following key topics were discussed with investors and proxy advisers:

- Weighting of the financial metrics on the variable reward balanced scorecard
- The Remuneration Committee's ability to adjust performance outcomes through use of discretion
- Executive Director pension contributions
- Post-cessation shareholding requirements

During the course of the review, the Committee considered a number of alternative approaches, including a conventional long-term incentive model. The Committee was mindful of feedback received directly from investors on our current approach to remuneration, the changing corporate governance landscape and the evolving debate on executive remuneration. Reflecting on the wider challenges the Bank continues to face and our strategic priorities in that context, the Committee concluded that our current framework, consistent throughout the Bank, remains aligned with, and will continue to drive, the long-term sustainable delivery of our business strategy.

As such, the Remuneration Committee has agreed to retain the majority of the existing Policy, whilst making a number of minor changes to address the external feedback, reflect best practice and formalise the regulatory requirements the Bank is required to observe as a proportionality level 2 firm. The key changes include:

- **Pension contributions –** Going forward, any new Executive Director hire will have a maximum pension contribution at a level aligned with or lower than that available to the majority of the wider workforce (our new CEO was appointed on a pension contribution level of 8% of base salary in line with this approach). The Committee is mindful of the current debate regarding pension contribution rates, and the pension contribution rate for the CFO (currently 10% of base salary) will be reduced to a level aligned with or lower than that available to the majority of the wider workforce by the end of 2022.
- **Variable reward –** On-target variable reward will be reduced from 75% of maximum potential to no more than 50% of maximum. The proportion of variable reward based on financial measures will increase from at least 25% to at least 40%.
- **Shareholding requirements –** We are proposing to introduce formal shareholding guidelines for Executive Directors of 200% of salary. In line with investor expectation and best practice, Executive Directors will also be required to retain 100% of the shareholding requirement (or actual holding if lower) for two years post-cessation.

With the Bank becoming a proportionality level 2 firm from 1 January 2019, we are subject to a number of enhanced regulatory requirements which apply to Executive Directors and other members of our Executive Leadership Team. These requirements, including extended deferral timeframes and malus and clawback periods, will be formalised into our updated Policy.

Full details of the proposed changes to our Directors' Remuneration Policy can be found on page 98.

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'.

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. The wider colleague population receive share options that vest over five years; colleagues who are PRA-designated Senior Managers (including the Executive Directors) will receive share options that vest over seven years with a 12-month holding period. This aligns all colleagues with both investors and other stakeholders in line with our customer-focused model and long-term vision.

All variable reward is subject to malus and clawback extending for up to ten years.

GENDER PAY

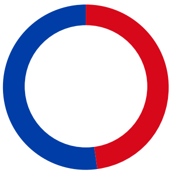
Our median gender pay gap has increased year on year although it remains below the level of 2017 and our mean gender pay gap has decreased year on year. The 2019 median gender pay gap is 12.4% (9.8% in 2018) and the mean gender pay gap is 20.1% (21.0% in 2018). The primary causes of the median pay gap to increase are the larger proportion of women in the lower quartiles along with a high proportion of men in the upper quartiles.

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
2019	12.4%	20.1%	33.3%	30.6%	33.3%	29.4%
2018	9.8%	21.0%	29.0%	35.7%	27.9%	30.0%

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.

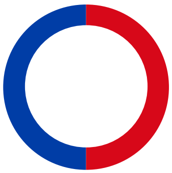
PAY QUARTILES

Lower



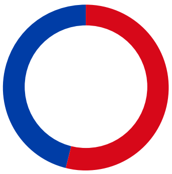
🟥 Male	48%
🟦 Female	52%
Median pay gap	0.0%
Mean pay gap	-0.1%

Lower middle



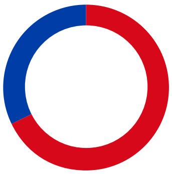
🟥 Male	50%
🟦 Female	50%
Median pay gap	0.5%
Mean pay gap	1.2%

Upper middle



🟥 Male	54%
🟦 Female	46%
Median pay gap	-0.2%
Mean pay gap	0.3%

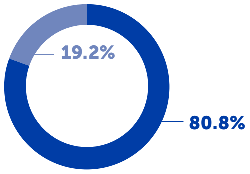
Upper



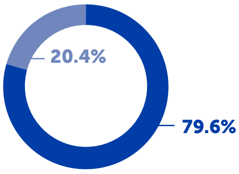
🟥 Male	68%
🟦 Female	32%
Median pay gap	8.2%
Mean pay gap	7.8%

In 2019, variable reward was balanced with 80.8% of females receiving a bonus, versus 79.6% of males.

Female



Male



🟦 Received bonus ▨ Did not receive bonus

The median bonus gap was 33.3% and the mean bonus gap was 30.6%. However, if gains made on the sale of share options or shares are excluded, the median bonus gap remains at 33.3% and the mean bonus gap reduces to 29.4%. 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 2019

Variable reward

Variable reward outcomes are 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.

As disclosed in our 2018 Annual 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 risk-weighted assets ('RWA') by £900 million. The Committee decided to freeze vestings of share options and awards for Executive Directors and the Executive Leadership Team, including share options granted for 2019 performance, pending further internal analysis and any external investigations into the RWA adjustment. Awards for 2018 and 2019 will remain frozen, as will any further awards, and we have extended this approach to include any colleagues who we believe may have been proximate to the issue.

Further to feedback from investors and proxy advisors in early 2019, the Committee chose to exercise discretion and amend the weightings of the performance measures within the balanced scorecard. The final scorecard therefore differed from that outlined in the 2018 Annual Report and Accounts. In response to shareholder feedback, we increased the weighting of financial and colleague measures and reduced the weighting of customer measures. The weighting of the financial measure will increase further in 2020 whilst the colleague measure will reduce.

We again set stretching targets for 2019, and strong performance against our risk, customer and people measures resulted in a formulaic balanced scorecard outcome of 56.5% of maximum. The Committee was mindful of the fact that the non-financial measures have paid out at a higher level compared to the financial measures, which were below gateway performance, as a result of challenging market conditions in the year. Taking this into consideration, and in view of the overall Company performance in 2019, the Committee exercised its discretion to reduce the scorecard outcome to 41.4% of maximum relating to the cash bonus element; the Committee also applied further downward discretion to the number of share options being awarded after considering our headroom and dilution limits. The Committee determined that it would not be appropriate to award cash bonuses or short-term share options to the Executive Directors or members of the Executive Leadership Team for 2019. As such, and in order to retain our people and align their reward to long-term performance of the organisation, David Arden's variable pay award as well as those of our Executive Leadership team members was delivered solely in the form of market price share options vesting over seven years. At the time of award, the value of these share options was nil and vesting is frozen pending the investigation into the RWA adjustment.

The Committee considers David's award reflects his growth into the role and his development of strong relationships with key stakeholders and regulators. David has also helped lead the comprehensive review of our strategy, and the Committee believes he will play a key role in the successful execution of our transformation plan going forward as we focus on becoming the UK's best community bank. David's award was therefore delivered in the form of long-term vesting share awards to align David with the successful execution of our strategy over the coming years, which will benefit all of our stakeholders and be key for the long-term sustainable success of the Bank.

Remuneration Committee report
continued

David's options have an exercise price equal to the market value of the Metro Bank shares on the date of grant, and as such, value will only be delivered to the extent that the share price increases going forward. Any vesting of the award is frozen pending the investigation into the RWA adjustment.

The Committee has agreed that Craig Donaldson will not be awarded variable remuneration in respect of the 2019 performance year, in light of corporate performance during the year and the announcement that he would be stepping down as Chief Executive Officer at the end of the year.

Pages 87 and 88 detail the scorecard measures, targets and outcomes relating to 2019 as well as any share options awarded to Executive Directors.

Leadership changes
Following the announcement that Craig Donaldson was stepping down as Chief Executive Officer, Daniel Frumkin was appointed as interim CEO on 1 January 2020 on a salary of £690,000. Daniel was subsequently appointed permanent CEO on 19 February 2020 on a salary of £740,000, which was less than his predecessor (£750,000). His pension contribution is 8% of salary, which is aligned with or lower than that available to the majority of the wider workforce and his variable reward arrangements are in line with our Remuneration Policy. Further details are provided on page 98.

Craig Donaldson stepped down as CEO on 31 December 2019. Craig did not receive any variable remuneration for 2019 (or 2018). Craig will remain employed by Metro Bank until 31 December 2020, and remain available to the Board as an adviser in order to support the transition and provide insight and background. The Committee will consider whether Craig's outstanding share options and awards will remain capable of vesting on their normal vesting dates, albeit all unvested share options and shares remain frozen at present, pending further internal analysis and any external investigation into the RWA adjustment.

LOOKING FORWARD TO 2020
Salaries from 1 April 2020
We had an overall salary increase pot of 2% for 2020. The 'on-target' pay increase for inflationary and behavioural/performance-related salary increases was 1.30%. When we consider all salary increases, the average pay rise was 1.74% and the maximum was 17%. In total, 1,875 or 53.70% 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 2.93% and 7.78%.

We have reviewed our Executive Directors' salaries and determined that no salary increases would be made for 2020.

Chairman and Non-Executive Director fees
Sir Michael Snyder was appointed interim Chairman in October 2019. The annual fees for the interim Chairman remain unchanged at £275,000. The fees for our Non-Executive Directors remain unchanged at £52,500 per annum.

Former Chair
The former Chair, Vernon W. Hill, II, stepped down from his role as Chair on 23 October 2019 and resigned from the Board on 17 December 2019. He will receive his annual fee of £385,000 until 9 March 2020 in line with his service agreement and our Remuneration Policy as approved by shareholders in 2017. The £120,000 gross annual allowance, paid in monthly instalments via PAYE as a contribution towards his travel to/from the UK and accommodation and subsistence while here, ceased with effect from the date he stepped down from the Board.

Variable reward for 2020
The Committee will agree an appropriate balanced scorecard to inform the Company variable reward multiplier for 2020, based on financial, risk, customer and people objectives. We will disclose targets and measures in the Remuneration section of the Annual Report for 2020. 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 to no longer be sensitive.

The Committee is mindful that the COVID-19 pandemic will have an impact on the 2020 performance of the Bank and will take it into consideration when determining the variable remuneration for all colleagues as part of 2020 performance outcomes, in particular the outcomes for senior executives.

The majority of variable pay for Executive Directors will continue to be awarded as share options. Variable reward for PRA-designated Senior Managers (including the Executive Directors) will continue to 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 all colleagues on growth and the long-term, sustainable success of the business.

APPROPRIATENESS OF EXECUTIVE REMUNERATION
We believe that the overall remuneration structure continues to be appropriate and as such are only proposing minor amendments to our policy which will strengthen our approach to reward, reflect best practice and investor expectations and ensure continued compliance with the regulatory requirements the Bank is required to observe as a proportionality level 2 firm. There is significant alignment between the interests of Executive Directors and shareholders, and we take the same approach with all colleagues as part of our ethos to make every colleague feel like an owner. The Remuneration Committee has complete discretion to challenge the formulaic variable reward outcome where it believes it is not appropriate.

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

On behalf of the Committee, thank you for your support.

Catherine Brown
Remuneration Committee Chair
16 April 2020

The following table summarises how the Remuneration Policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Committee is committed to providing open and transparent disclosures to shareholders and colleagues with regard to executive remuneration arrangements. In the review of the Remuneration Policy, the Committee engaged with shareholders in order that they could express their views on the proposals, and took into account shareholder feedback to ensure our proposed policy is aligned to best practice and investor expectation. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our designated workforce engagement Director.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our approach to remuneration for Executive Directors is simple and consistent with that taken for all colleagues (comprising fixed pay and variable reward delivered primarily through share options). We do not operate an additional long-term incentive plan.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	In line with regulatory requirements, our remuneration practices promote sound and effective risk management whilst supporting our business objectives. For 2020, 20% of our balanced scorecard which informs variable reward will be based on risk measures, and variable reward is also subject to a risk adjustment process and input from the Chief Risk Officer. The deferred portion of any awards granted to Executive Directors is subject to a seven-year deferral period, during which our malus policy can be applied. All variable pay awards that have vested are subject to our clawback policy for a period of up to seven years from the award date (extending to 10 years where an investigation is ongoing).
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Variable reward is delivered primarily through share options. The value of awards are therefore closely aligned to share price movements and the shareholder experience. The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the Remuneration Policy on page 104.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	Variable reward payments require robust performance against challenging conditions. Performance conditions have been designed to drive the delivery of our business strategy and consist of a number of financial and non-financial metrics, as well as individual performance based on the individual's AMAZEING review. The Committee has discretion to override formulaic scorecard outcomes to ensure that they are appropriate and reflective of overall performance. In 2019 the Committee exercised its discretion to reduce variable pay awards to zero for the CEO.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	Our primary objective is to design a remuneration framework that promotes the growth and long term success of Metro Bank while supporting our unique culture. 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. All colleagues are eligible for share options or an equivalent, in line with our strong ethos of colleague buy-in and ownership.

Remuneration Committee report
continued

THE REMUNERATION FRAMEWORK IN BRIEF

Our remuneration framework:

- promotes the growth and long-term success of Metro Bank
- supports the unique culture and model to deliver outstanding customer service
- 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 strongly aligned to the delivery of outstanding customer service.

Our approach to reward 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.

KEY AREAS DISCUSSED AT REMUNERATION COMMITTEE MEETINGS IN 2019

Area	Key topics
Policy and reporting	• Approval of Directors' remuneration report, including letter from Remuneration Committee Chair and Remuneration Policy • Gender pay and approach to reporting 2019 data • New Remuneration Committee Terms of Reference • Feedback on 2018 Annual Report and 2019 AGM • Review of Directors' Remuneration Policy, including consultation with key shareholders and proxy advisory bodies on Executive Director remuneration matters

Area	Key topics
Reward	• 2019 Annual Reward Review for all colleagues – including multiplier for variable reward, awards (for 2018 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 2020 grant (for 2019 performance year) • Consideration of alternative long-term incentive arrangements • Discretionary decisions regarding retention of share options by former employees • Review of Metro Bank Group Personal Pension Plan (Governance report) • Treatment of outstanding variable pay awards and variable pay outcomes for 2019 in the context of the internal analysis and external investigation into the risk-weighted assets ('RWA') adjustment
Regulation	• Implementation of remuneration regulatory requirements as a proportionality level 2 firm • Remuneration Code Annual Disclosure for 2019 • Ex-post checks for April and October 2019 share option vests • CRO review of FCA remuneration guidelines, including ex-ante checks • Director of Internal Audit sign-off of 2019 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

BALANCED SCORECARD REMUNERATION OUTCOME FOR 2019 COMPANY PERFORMANCE MULTIPLIER

	Weighting	Weighted performance outcome
A Financial – see Financial Measures table	35%	0.0%
B Risk	20%	19.3%
C Customer	25%	17.8%
D People	20%	19.4%
Total	**100%**	**56.5%**
Adjusted company multiplier after discretion applied	**100%**	**41.4%**

FINANCIAL MEASURES

	Weighted multiplier
Deposit performance	0.0%
Profit before tax	0.0%

VARIABLE REWARD FOR ALL EMPLOYEES

On-target variable reward x **Adjusted company multiplier** x **Individual performance and seniority 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

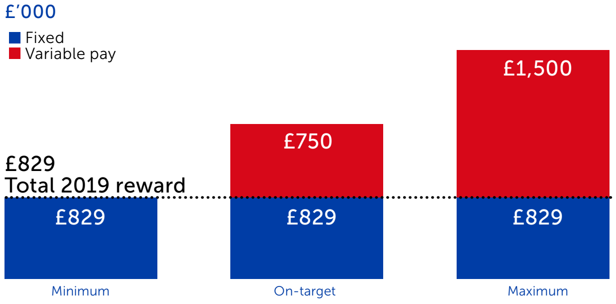
2019 REMUNERATION OUTCOMES

A) Financial 0.0% + **B) Risk 19.3%** + **C) Customer 17.8%** + **D) People 19.4%** = **56.5%** → Discretion applied → **41.40%**

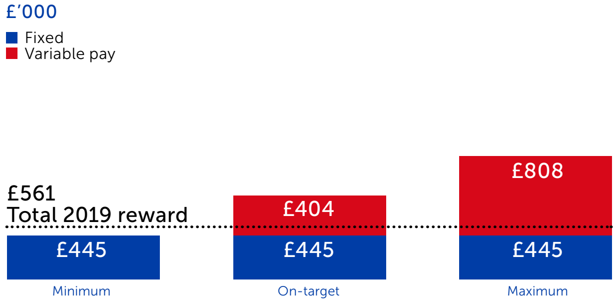
→ **Individual Performance** + **Individual Seniority** = **Total variable reward**

2019 REMUNERATION OUTCOMES FOR EXECUTIVE DIRECTORS

Craig Donaldson – CEO



David Arden – CFO



Remuneration at a glance
continued

DIRECTORS' REMUNERATION POLICY IN BRIEF

The table below sets out the key features of our proposed new Remuneration Policy, and how it will be implemented in 2020. The Policy is due to be approved by shareholders at our AGM in 2020 for the following three years. Full details of the proposed Policy can be found on pages 98 to 106.

Key elements of remuneration	Key features of the Policy	Implementation for 2020
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, for example where the size and scope of a particular role is increasing as the organisation grows	• Daniel Frumkin: Interim CEO: £690,000 (1 January 2020 to 18 February 2020) • Permanent CEO: £740,000 (19 February 2020 onward) • David Arden CFO: £405,000 (unchanged)
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 • 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 lifetime 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	Company contributions: • Daniel Frumkin: 8% 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 60% of variable pay is deferred into long-term share awards which vest over 7 years, normally in the form of share options. Share awards will normally vest pro-rata between years three and seven with a retention period of at least one year after each vest. A further 20% is deferred into one-year vesting share awards; again, normally share options. The remaining 20% 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 line with the balanced scorecard including financial and cultural measures • 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 2020 will be as follows: – Financial 40% – Risk 20% – Customer 20% – People 20%
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	• 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 interim Chairman remain unchanged at £275,000

Annual report on remuneration

This section sets out how the Remuneration Policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2019. This section will, together with the annual statement by the Chair of the Remuneration Committee, be put to shareholders for an advisory vote at the 2020 AGM.

SINGLE TOTAL FIGURE OF REMUNERATION – EXECUTIVE DIRECTORS (AUDITED)

Annual remuneration (£)

The following sets out the remuneration for the individuals who served as Executive Directors in the year.

	Craig Donaldson		David Arden	
	2019	2018	**2019**	2018
Salary	**£750,000**	£725,000	**£403,750**	£315,152
Taxable benefits[1]	**£889**	£1,027	**£356**	£274
Variable pay, including deferred element[2]	**£0**	£0	**£115,421**[5]	£288,000[6]
Pension benefits[3]	**£75,000**	£72,500	**£40,375**	£31,515
Other[4]	**£2,676**	£2,417	**£785**	£650
Buyouts	**–**	–	**–**	£460,000[7]
Total remuneration	**£828,565**	£800,944	**£560,687**	£1.095,591

Notes:

1. Taxable benefits include private medical insurance.
2. 80% of the total variable pay awarded is typically converted into share options – see page 89. 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. David Arden has opted out of the pension scheme as he has reached the lifetime allowance and receives a cash allowance of 10% of salary. The incoming CEO will receive a pension contribution of 8% 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 for Craig Donaldson only) and an annual health check.
5. David Arden's 2019 variable reward will be delivered in the form of long-term share options only. At award, the value of the market price share options was nil. These share options will vest over 7 years (pro-rata between years three and seven) with a retention period of at least one year after each vest.
6. 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.
7. David Arden (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. This award does not relate to the 2018 performance year.

DETAILS OF THE SINGLE FIGURE

Salary

	Salary as at 1 January 2019	Salary as at 1 April 2019	Total salary paid in 2019
Craig Donaldson (stepped down from the Board 31 December 2019)	**£750,000**	**£750,000**	**£750,000**
David Arden	**£400,000**	**£405,000**	**£403,750**

2019 variable reward outcomes

In line with the Remuneration Policy approved by shareholders at the AGM on 25 April 2017, the Executive Directors' variable reward in relation to performance during 2019 was based on a balanced scorecard of performance measures and objectives, weighted between financial (35%), risk (20%), customer (25%) and people (20%). Amounts shown reflect the total awards under the variable reward scheme paid in 2020, based on performance in the financial year ending 31 December 2019, including the value of any deferred element.

In addition to the Company multiplier, a further multiplier based on individual behaviours and performance was applied to the balanced scorecard remuneration outcome. The tables below illustrate performance against each of the balanced scorecard measures. As set out on page 90, this approach and multiplier are consistent with that applied for all colleagues across the Bank.

FINANCIAL PERFORMANCE

Performance measure	Weighted performance outcome at gateway[1]	Gateway (threshold) performance	Weighted performance outcome at target[2]	2019 target performance	Weighted performance outcome at maximum[3]	Maximum performance	Weighted performance outcome	Actual performance outcome
Deposit performance £m	4.0%	17,294	5.0%	19,216	6.0%	21,137	**0.0%**	**14,500**
Profit before tax %	27.0%	90%	30.0%	100%	33.0%	110%	**0.0%**	**0%**
Total for financial measures	**31.0%**		**35.0%**		**39.0%**		**0.0%**	

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.

Annual report on remuneration
continued

NON-FINANCIAL COMPANY OBJECTIVES

	Objectives	Key achievements in 2019	2019 Weighting	2019 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 just below threshold at 97%. The weighted performance outcome does not take into account the impact of the RWA adjustment as this was not an objective under the 2019 scorecard.	20%	19.3%
Customer	Key measures relating to Net Promoter Scores, call centre service, and customer complaints	Call centre service was below expectations and fell short of threshold, although customer complaints were above threshold. Both customer accounts and Net Promoter Scores met target. We topped the CMA service quality results for the first time in 2019 but this is not captured in the 2019 scorecard.	25%	17.8%
People	Key measures relating to voluntary attrition[2], diversity, compliance training and being a 'good place to work'	92% of people agreed that Metro Bank is a good place to work in our annual colleague survey. We have seen an increase in voluntary attrition in the year, although it remains in line with target (capped at 100%). Colleagues have undertaken their regulatory training on time. We improved both gender and ethnic diversity in our senior leaders during the course of 2019.	20%	19.4%

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 FOR COMPANY PERFORMANCE MULTIPLIER

	Weighting	Weighted performance outcome
A Financial	35%	0.0%
B Risk	20%	19.3%
C Customer	25%	17.8%
D People	20%	19.4%
Total	**100%**	**56.5%**

See how our balanced scorecard measures link to our business model on page 8.

Weightings of the performance measures within the balanced scorecard were amended in early 2019 following feedback from investors and proxy advisors. The weight of financial and colleague measures were increased and the weighting of the customer measure was reduced.

Based on the assessment of performance against the balanced scorecard outcomes outlined above, a Company performance weighting of 56.5% was considered by the Remuneration Committee for 2019. However, using its discretion, the Remuneration Committee agreed to a lower multiplier taking into account 2019 financial performance. The adjusted multiplier is 41.4% and has been applied to the cash bonus element of variable reward for all eligible colleagues across the Bank.

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 multiplier in respect of David Arden for 2019 which was determined by the Remuneration Committee.

Executive Director	Key achievements in 2019	Individual behaviours and performance multiplier
David Arden	2019 was David's first full year at Metro Bank and during that time he has helped lead the business through a very difficult period. He has been integral to the balance sheet actions taken by the business, appropriately managing the Bank's capital and liquidity position. Balance sheet optimisation remains a key area of focus. Material progress has also been made on the remediation programme relating to RWA's and regulatory reporting, as well as a continued improvement in the governance and general control environment within Finance. David has also continued to build strong relationships across Metro Bank's stakeholders, most notably investors and regulators.	100%

CALCULATION OF VARIABLE PAY FOR THE EXECUTIVE DIRECTORS

As set out in the 2018 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 2019. Craig Donaldson (the former CEO who stepped down on 31 December 2019) was not awarded any variable reward for 2019.

In addition to the Committee applying discretion to reduce the multiplier to 41.4% for all colleagues, the Committee also applied their discretion when considering the number of share options to grant to David Arden in 2020, taking into account dilution limits. It was agreed that fewer share options would be granted than normal.

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[1] performance multiplier	Individual behaviours and performance multiplier	Total variable reward
Craig Donaldson	£750,000	41.4%	–	=£0
David Arden	£405,000	41.4%	100%	=£115,421[2]

1. The corporate multiplier of 56.5% was adjusted to 41.4% after the Remuneration Committee applied discretion after taking into account 2019 financial performance.
2. In order to retain our people and align reward with the long-term performance of the Bank, the full amount of David Arden's variable pay was delivered in the form of market price share options vesting over seven years. At the time of award, the value of these share options was nil.

HOW VARIABLE REWARD IS PAID

Executive Director	Total 2019 variable reward	Element of variable reward	Quantum	Method of delivery[1]
David Arden	£115,421	Long-term share options[1]	76,947 options	Seven-year options with the first vesting three years after grant and in equal annual instalments thereafter with a 12-month retention period after each vest. The Committee will retain discretion over the vesting of any options.

Note: All share option awards rounded to nearest option

1. The Committee exercised its discretion to determine that no cash bonus or one-year share options would be awarded and David's variable pay would be delivered in the form of market price share options vesting over seven years. At the time of award, the value of these share options was nil. Any share options awarded were granted at an option price based on the Volume Weighted Average Share Price ('VWAP') for Metro Bank on 30 March. All share options awarded are frozen pending further internal analysis and any external investigations into the RWA adjustment.

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 current Directors' Remuneration Policy, as approved by shareholders at the AGM on 25 April 2017, as well as our proposed Policy going forward, 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

Annual report on remuneration
continued

SUMMARY OF THE REMUNERATION STRUCTURE FOR COLLEAGUES BELOW BOARD LEVEL

Salary	Benefits	Pension	Variable remuneration
• We have a 'normal' inflationary and performance-related pay pot of 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	• 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	• The table below shows the minimum and maximum employer pension contributions payable by Metro Bank year-on-year	• All colleagues are eligible for share options or an equivalent, in line with our strong ethos of colleague 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]

	2019		2018		% increase	
Employer contribution as a % of salary	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
CEO[2]	**10%**	**10%**	10%	10%	0%	0%
Executive Directors[2] & Executive Leadership Team	**10%**	**10%**	10%	10%	0%	0%
Senior leaders and experts	**10%**	**10%**	9%	10%	11%	0%
Managers and specialists	**8%**	**8%**	8%	8%	0%	0%
Entry-level roles	**6%**	**6%**	6%	6%	0%	0%

1. Data at 1 April each year.
2. A newly appointed Executive Director's pension contributions will be aligned with or lower than those of the wider workforce at the time of appointment. Daniel Frumkin was appointed on a pension contribution of 8% of base salary.

CEO REWARD VS. EMPLOYEE REWARD

The table below sets out the percentage change between the 2018 and 2019 years in salary and variable reward.

% change 2018/19

	Median			Average		
Employee group	FTE salary	FTE taxable benefits	FTE[4] variable reward	FTE salary	FTE taxable benefits	FTE variable reward
All colleagues[1]	4.7%	–13.4%	0.3%	6.3%	–1.4%	–40.2%
CEO[2]	3.4%	–13.4%	n/a	3.4%	–13.4%	n/a
Executive Leadership Team[3]	3.4%	–13.4%	–57.9%	5.9%	–13.4%	–72.2%

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 2018 and still employed on or after 31 December 2019. Any colleagues who joined or left the Bank within this period have been excluded from the analysis. Salary is taken as at 31 December 2018 and 31 December 2019.
2. Craig Donaldson did not receive a variable reward for 2018 and he will not receive a variable reward for 2019.
3. The CFO is not included in this figure as David Arden was not employed across the entire same store period – i.e. between 1 January 2018 and 31 December 2019.
4. FTE: full-time equivalent.

CEO to colleague 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
2019	**A**	**36:1**	**27:1**	**16:1**	**£750,000**	**£20,700**	**£26,700**	**£43,400**	**£828,600**	**£22,900**	**£30,300**	**£51,200**
2018	A	36:1	28:1	16:1	£725,000	£19,300	£25,100	£40,500	£801,000	£22,200	£28,400	£49,300

Note: 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 2019. This methodology was chosen as it is the most straightforward 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 2020 in respect of the 2019 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.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows total remuneration of all colleagues for 2019 compared to 2018. This data is taken from the people costs on page 133 and excludes social security costs.

	2019 £'million	2018 £'million	% change
Employee costs	142.2	128.0	11.1

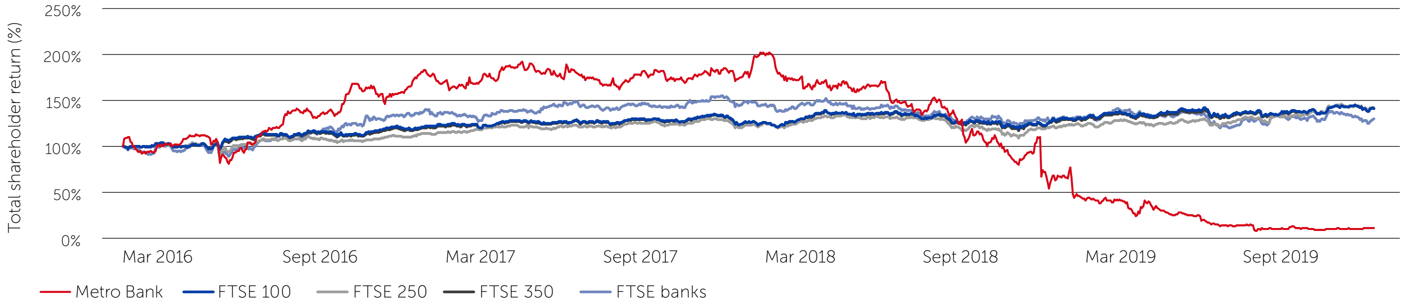
Employee costs have increased as a result of the average salary figure increasing across the Bank between 2018 and 2019. This is primarily due to recruitment of more senior colleagues to deliver strategic projects.

We made no distributions by way of dividend or share buy-back during the preceding year, or 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.



CEO HISTORIC REMUNERATION

	Craig Donaldson						
	2019	2018	2017	2016	2015	2014	2013
Total remuneration (including any Listing awards)	£828,565[1]	£800,944	£1,518,893	£1,304,919	£2,661,474[2]	£749,443	£1,294,100
Variable reward outcome as a percentage of the maximum that could have been paid[3]	0%	0%	62%	52%	n/a[4]	n/a[4]	n/a[4]

1. The figure for 2019 takes into account zero variable reward for Craig Donaldson in light of the Committee agreeing that Craig will not be awarded variable remuneration in respect of the 2019 performance year.
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 93 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.

Annual report on remuneration
continued

NON-EXECUTIVE DIRECTORS' REMUNERATION

Chairman's fees

The fees for the interim Chairman remain unchanged at £275,000.

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 FTSE 250 companies.

The basic fee for Non-Executive Directors, which was last increased in April 2018, remains unchanged at £52,500. Additional fees remain unchanged from 2018. The latest fees are shown below:

Role	Annual fee (£'000)
Non-Executive Director – basic fee	52.5
Senior Independent Director or Deputy Chairman	30.0
Chair of Audit or Risk Committee or Designated NED for Workforce Engagement	20.0
Chair of Nomination or Remuneration Committee	10.0
Member of Audit, Risk or Remuneration Committee	10.0
Member of Nomination Committee	5.0

The table below shows the actual fees paid to our Chairman and Non-Executive Directors in 2019 and 2018[1].

	Vernon W. Hill, II[2,3]		Stuart Bernau		Catherine Brown		Keith Carby[4]		Roger Farah[5]		Howard Flight[6]	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fees	**385,000**	385,000	**90,000**	90,625	**71,250**	13,125	**24,167**	75,625	**88,333**	65,625	**21,875**	85,625
Taxable benefits[8]	**115,455**	120,000	**8,493**	7,617	**0**	0	**4,148**	5,011	**2,640**	5,190	**0**	0
Total	**500,455**	505,000	**90,000**	90,625	**71,250**	13,125	**24,167**	75,625	**90,973**	70,815	**21,875**	85,625

	Alastair (Ben) Gunn		Gene Lockhart[5]		Anna (Monique) Melis		Sir Michael Snyder[7]		Paul Thandi		Michael Torpey	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Fees	**85,000**	90,625	**85,000**	90,625	**72,500**	58,958	**130,798**	70,625	**64,583**	n/a	**25,833**	n/a
Taxable benefits[8]	**5,252**	5,189	**3,838**	0	**0**	0	**0**	0	**0**	n/a	**0**	n/a
Total	**85,000**	90,625	**88,838**	90,625	**72,500**	58,958	**130,798**	70,625	**64,583**	n/a	**25,833**	n/a

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 was 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. Stepped down from his role as Chair on 23 October 2019 and resigned from the Board on 17 December 2019.
4. Left the Board on 30 April 2019.
5. 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 £.
6. Left the Board on 31 March 2019.
7. Became interim Chairman on 23 October 2019.
8. 2018 taxable benefit figures for our UK Non-Executive Directors have been restated to reflect grossed-up expenses claimed. 2018 figures now reflect expenses claimed in the 2017-18 tax year and 2019 figures reflect expenses claimed in the 2018-19 tax year.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Both Executive Directors have service contracts. Our Non-Executive Directors do not have service contracts but are bound by letters of appointment which are available for inspection on request at the Company's registered office.

Non-Executive Directors are appointed for fixed terms not exceeding 2 years, which may be renewed subject to their re-election by shareholders at AGMs.

The effective dates of the current Directors' appointments disclosed in their service contracts are shown in the table below.

Executive Director	Notice period	Date of service contract
Craig Donaldson[1]	**12 months**	**1 September 2009**
David Arden	**12 months**	**19 March 2018**
Daniel Frumkin	**12 months**	**18 February 2020**

1. Craig Donaldson stood down from the role of Chief Executive Officer and the Board on 31 December 2019.

PAYMENTS TO PAST DIRECTORS

There were no payments made to past Directors in 2019.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office made to Directors in 2019.

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 and the Directors' Remuneration Policy at the 2020 AGM.

The table below shows the voting outcomes on the annual report on remuneration at the last AGM on 21 May 2019 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
2018 remuneration report	79.3%	58,189,686	20.7%	15,165,144	1,448,784

At the 2019 AGM, whilst all resolutions were passed by a large majority of shareholders, the vote on the 2018 Directors' remuneration report was passed with 79.3% votes cast in favour. Since the AGM, we have continued to engage actively with our shareholders to fully understand their views and voting decisions. We understand from those shareholders who we have spoken to that they voted against this resolution because of concerns in respect of the bonus payment for David Arden in 2018. Having reflected on the views expressed by the relevant shareholders, we are satisfied that the bonus payment was appropriate; however, we acknowledge that we could have provided more detail in respect of the decision to award David a bonus in 2018. We will take this into account in our disclosures going forward.

SHAREHOLDING

These are the total shareholdings as at 31 December 2019 for each of the Non-Executive Directors and Executive Directors and any related connected persons. Outstanding share awards, including share options, are summarised on pages 94 to 97.

Director*	No. of shares	Percentage of share capital
Sir Michael Snyder	48,300	0.03
Craig Donaldson[1]	264,342	0.15
David Arden	18,400	0.01
Stuart Bernau	51,154	0.03
Catherine Brown	100	0.00
Roger Farah	685,023	0.40
Alastair (Ben) Gunn	69,864	0.04
Gene Lockhart	44,989	0.03
Monique Melis	1,690	0.00
Paul Thandi	30,000	0.02
Michael Torpey	0	0.00

* Howard Flight held 29,116 shares when he left the Board on 1 April 2019. This figure is not included in the table above.

* Keith Carby held 38,320 shares when he left the Board on 30 April 2019. This figure is not included in the table above.

* Vernon W. Hill, II held 5,489,317 shares when he left the Board on 17 December 2019. This figure is not included in the table above.

[1] 17,749 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 2020, no transactions in shares by Directors and their connected persons have taken place.

Annual report on remuneration
continued

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 15,000 shares and as he only joined the Company on 19 March 2018 we are allowing him time to build up his shareholding.

From 2020, Executive Directors will be required to retain 100% of their shareholding requirement (or actual shareholding if lower) for two years post-cessation of employment.

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 Metro Bank 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 2019:

- the total number of share awards, shares granted or interests in shares granted and the award price;
- the total number of outstanding share awards; and
- the total number of share awards frozen, subject to the ongoing RWA investigation. See page 81

Vernon W. Hill, II

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	15,000	04/11/15	£16.00	£240,000	31/10/16	31/10/20	12,000	3,000	–
CSOP2014	60,000	31/10/14	£13.50	£810,000	31/10/15	31/10/19	60,000	–	–
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	2,000	–	–
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	4,000	–	–
Total	**86,000**						**83,000**	**3,000**	**–**

Craig Donaldson

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options vested (frozen)[1]	Share options still subject to conditions	Exercised in year
CSOP 2018 Deferred Cash 1 Year	20,000	31/03/18	£35.36	£707,200	30/04/19	30/04/19	–	20,000	–	–
CSOP2018 Bonus Exchange	20,000	31/03/18	£35.36	£707,200	31/03/18	31/03/18	20,000	–	–	–
CSOP2018	40,000	31/03/18	£35.36	£1,414,400	30/04/19	30/04/23	–	8,000	32,000	–
CSOP2017 Deferred Cash 1 Year	16,819	31/03/17	£32.73	£550,486	30/04/18	30/04/18	16,819	–	–	–
CSOP2017 Bonus Exchange	16,819	31/03/17	£32.73	£550,486	31/03/17	31/03/17	16,819	–	–	–
CSOP2017	33,637	31/03/17	£32.73	£1,100,939	30/04/18	30/04/22	6,727	6,727	20,183	–
CSOP2016 Pension Exchange	4,541	04/03/16	£20.00	£90,820	21/03/16	21/03/16	4,541	–	–	–
CSOP2015	30,000	04/11/15	£16.00	£480,000	31/10/16	31/10/20	18,000	6,000	6,000	–
CSOP2015 Bonus Exchange	20,000	20/03/15	£14.00	£280,000	20/03/15	20/03/15	20,000	–	–	–
CSOP2014	130,000	31/10/14	£13.50	£1,755,000	31/10/15	31/10/19	104,000	26,000	–	–
CSOP2014 Bonus Exchange	13,077	21/03/14	£13.00	£170,001	21/03/14	21/03/14	13,077	–	–	–
CSOP2013	30,000	11/11/13	£12.00	£360,000	11/11/16	11/11/18	30,000	–	–	–
CSOP2012	50,000	31/10/12	£10.00	£500,000	31/10/13	31/10/15	50,000	–	–	–
CSOP2011	11,000	07/10/11	£9.00	£99,000	07/10/12	07/10/14	7,667	–	–	–
Total	**435,893**						**307,650**	**66,727**	**58,183**	**–**

1. All vestings under existing awards will remain frozen as will any future awards subject to further internal analysis and any external investigation into the RWA adjustment.

Scheme Name	Shares awarded	Award date	Award price	First vesting date	Last vesting date	Shares vested and unexercised	Shares vested (frozen)[1]	Shares still subject to conditions	Exercised in year
Project Revolution (Listing Awards)	55,459	04/03/16	£0.00	10/03/16	30/04/21	28,837	8,873	17,749	–

1. All vestings under existing awards will remain frozen as will any future awards subject to further internal analysis and any external investigation into the RWA adjustment.

David Arden

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options vested (frozen)[1]	Share options still subject to conditions	Exercised in year
CSOP 2019 Deferred Cash 1 Year	9,600	02/04/19	£7.94	£76,224	30/04/20	30/04/20	–	–	–	–
CSOP2019	19,200	02/04/19	£7.94	£152,448	30/04/20	30/04/24	–	–	–	–
CSOP2018	30,000	31/03/18	£35.36	£1,060,800	30/04/19	30/04/23	–	5,999	–	–
Total	**58,800**						**–**	**5,999**	**–**	**–**

1. All vestings under existing awards will remain frozen as will any future awards subject to further internal analysis and any external investigation into the RWA adjustment.

Annual report on remuneration
continued

Stuart Bernau

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/10/20	6,000	1,500	–
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	31/10/19	15,000	–	–
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	–	–	–
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	–	–	–
Total	**33,500**						**26,000**	**1,500**	**–**

Keith Carby

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	30/04/19	7,500	–	–
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	30/04/19	15,000	–	–
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	2,000	–	–
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	4,000	–	–
Total	**33,500**						**33,500**	**–**	**–**

Roger Farah – all of Roger's share options were vested and exercised during 2019. There are no options outstanding.

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/10/20	–	–	–
Total	**7,500**						**–**	**–**	**–**

Lord Howard Flight

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/03/19	4,500	–	–
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	31/03/19	12,000	–	–
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	2,000	–	–
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	4,000	–	–
Total	**33,500**						**27,500**	**–**	**–**

Alastair (Ben) Gunn

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/10/20	6,000	–	–
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	31/10/19	15,000	–	–
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	–	–	–
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	–	–	–
Total	**33,500**						**26,000**	**–**	**–**

Gene Lockhart

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/10/20	6,000	1,500	0
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	31/10/19	15,000	–	0
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	0
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	2,000	–	0
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	4,000	–	0
Total	**33,500**						**32,000**	**1,500**	**0**

Sir Michael Snyder – all of Michael's share options were vested and exercised during 2019. There are no options outstanding.

Scheme Name	Share options granted	Award date	Award price	Face Value of award	First vesting date	Last vesting date	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	5,000	04/11/15	£16.00	£80,000	31/10/16	31/10/20	–	–	–
Total	**5,000**						**–**	**–**	**–**

EXECUTIVE DIRECTOR PROPOSED SHARE OPTION AWARDS

The following share option awards were made in 2020 in respect of the 2019 performance year and are already included in the single figure table for 2019 variable pay on page 87. The Committee has agreed that Craig Donaldson will not be awarded variable remuneration in respect of the 2019 performance year.

Vesting period	Craig Donaldson	David Arden
After one year	0	0
After seven years	0	76,947[1]
Total	**0**	**76,947**

[1] These share options have been frozen pending further internal analysis and any external investigations into the RWA adjustment.

Our Remuneration Policy

The section below sets out the Remuneration Policy for Executive and Non-Executive Directors. Approval for this Remuneration Policy will be sought at the Company's Annual General Meeting in May 2020 and, if approved, will take effect from that date. Details of how the policy will be applied in 2020 are included in the Directors' remuneration report.

It is intended that the policy will apply for three years beginning on the date of approval. However, the Remuneration Committee will consider the policy annually to ensure it remains aligned with the business strategy and regulatory requirements. Any changes needed within three years would be subject to shareholder approval, where required.

Our Remuneration Policy is being renewed for the first time. The key features remain unchanged from the policy previously approved by shareholders in 2017 and we have engaged with shareholders during 2019 and early 2020 as part of the review of this Policy.

In determining the new Remuneration Policy, the Committee followed an appropriate process, reflecting the consideration that the current remuneration framework remains aligned with the delivery of our strategy and the decision to retain the majority of the existing policy. Consideration was given to the strategic priorities of the business, evolving market practice and investor guidance. Input was sought from the management team, while ensuring that conflicts of interests were suitably mitigated. External perspective was provided by our independent advisers. The policy was also assessed against the principles of clarity, simplicity, risk management, predictability, proportionality and alignment to culture.

1. POLICY

Metro Bank offers banking, focused on the customer, through unparalleled levels of service and convenience.

We offer a simple approach to compensation which supports our unique culture and strategy as well as being aligned to shareholder needs. We reward colleagues who display the right behaviours and deliver the right outcome for customers and the business, focusing on long-term growth and discouraging unnecessary risk-taking.

The Directors have open discussions with investors and are available for feedback on reward matters at any time. During 2019, feedback was gathered from both investors and representative bodies as to the existing Remuneration Policy. Their feedback has been considered in the drafting of this Policy.

Pay and employment conditions of other colleagues in the Bank were also taken into account when setting this Remuneration Policy. In particular, base salary of Executive Directors is limited by reference to colleague pay as described on page 99. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our designated workforce engagement Director.

Summary of policy changes

This updated Policy has been developed taking into account various regulatory requirements and governance principles. The key changes proposed are set out below:

Component	Current Policy	New Policy
Base salary	Competitive salaries based on role requirements and individual experience which enable us to attract and retain the right calibre of colleague.	No change from previous policy.
Pension	10% of salary for Executive Directors and Executive Leadership Team. While not formally included within the Policy, the new CEO's pension contribution was set at a level aligned with or lower than that available to the majority of the wider workforce at the time of appointment.	All newly appointed Executive Director contributions to be aligned with or lower than those of the wider workforce at the time of appointment. Incumbent Executive Director contributions to be aligned with the wider workforce by the end of 2022.
Benefits	Standard benefits that are provided to Executive Directors are offered to all colleagues, with legacy benefits (income protection) being offered in certain circumstances.	Standard benefits that are provided to Executive Directors are offered to all colleagues. Legacy benefits are no longer offered.

Component	Current Policy	New Policy
Variable remuneration	Variable remuneration in respect of a financial year is limited to 200% of base salary. On-target variable remuneration will be no more than 75% of the maximum opportunity i.e. 150% of base salary. At least 25% of variable remuneration based on financial performance measures.	Maximum opportunity unchanged from previous policy. On-target opportunity has been reduced to 50% of maximum opportunity i.e. 100% of base salary. At least 40% of variable remuneration will be based on financial performance measures. Deferral and retention periods extended, with any variable remuneration to be deferred over a period of not less than seven years, with pro-rata vesting permitted between years three and seven, with a retention period of at least one year after each vest.
Shareholding requirement	Shareholding requirement not formally included within the Policy.	Requirement for Executive Directors to maintain a shareholding of 200% of base salary.
Post-cessation shareholding requirement	Post-cessation of employment shareholding requirement not formally included within the Policy.	From 2020, Executive Directors will be required to retain 100% of their shareholding requirement (or actual holding if lower) for two years post-cessation of employment.

2. COMPONENTS OF REMUNERATION FOR EXECUTIVE DIRECTORS

Base salary

Purpose and link to strategy	Base salary is part of the total proposition at Metro Bank, including career and growth opportunities and long-term reward. We aim to set pay at a level which enables us to attract and retain the right calibre of colleagues, with the required level of skills, experience and cultural alignment to deliver and improve the model.
Operation	Base salaries for Executive Directors are reviewed annually by the Remuneration Committee with any increase usually taking effect from 1 April the following year and paid in 12 equal, monthly instalments. When determining base salary levels, the Remuneration Committee considers factors including: • Company performance across a balanced set of measures including financial, risk, customer service and culture • Individual behaviours and delivery as per the AMAZEING reviews for Executive Directors • Relevant external market data • Scope and size of role • Individual's skills, expertise and experience and ability to grow with the role and organisation • Level of increases for all colleagues • Internal relativity • Economic factors, e.g. inflation • Affordability and available budget
Maximum potential	Salary increases in percentage terms for Executive Directors will normally be in line with increases awarded to other colleagues, but there may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, including, but not limited to, where there has been a clear increase in the scope of role or change in responsibilities.
Performance measures	Any salary increases for Executive Directors are based on individual behaviours and performance.

Our Remuneration Policy
continued

Pension

Purpose and link to strategy	Our pension policy aims to support Executive Directors in building long-term savings for their retirement, without exposing the Bank to any unnecessary financial risk or unacceptable cost.
Operation	Executive Directors are automatically enrolled into our Group Personal Pension Plan ('GPPP') when they join the Bank. If they have exceeded the lifetime 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.
Maximum potential	For incumbent Executive Directors, the current maximum employer contribution (including cash in lieu) is 10% of base salary. Newly appointed Executive Directors will have their pension contributions set at a level aligned with or less than that available to the majority of the wider workforce.
Performance measures	There are no performance measures related specifically to pension contributions.

Benefits

Purpose and link to strategy	We have a simple approach to reward and support the health, wellbeing and security of our Executive Directors through additional core benefits.
Operation	Benefits may include those currently provided and disclosed in the annual report on remuneration. **Core benefits include:** • Life assurance of 4x salary • Private medical insurance coverage for the Executive Director, their partner and children • Health screening checks for Executive Directors Additional benefits may be provided in certain circumstances including, but not limited to, relocation. Executive Directors also have access to additional voluntary benefits which are available to all colleagues, including ShareBuy, our Share Incentive Plan ('SIP').
Maximum potential	The maximum paid in respect of benefits will be the cost to Metro Bank of providing the benefits noted above. The cost may fluctuate from year to year even if the level of benefit provided remains unchanged.
Performance measures	There are no performance measures specifically related to benefits.

Variable remuneration

Purpose and link to strategy	Our discretionary variable reward scheme is made up of cash and deferred reward, normally in the form of share options (market value), or by exception, shares awarded subject to forfeiture (together called 'Share Awards'). Share Awards form the main part of our variable remuneration to encourage Executive Directors to focus on the long term, to think and behave like owners and to align their interests with those of our shareholders. The purpose of variable reward is to recognise Executive Directors for achievement against business objectives and priorities for the year and for demonstrating strong leadership and our AMAZEING Behaviours.

Variable remuneration continued

Operation	We operate a discretionary variable reward scheme based on behaviours and performance over the year, paid in the form of cash and Share Awards for all colleagues including Executive Directors. We do not currently operate any separate and additional Long-Term Incentive Plans. The Remuneration Committee will exercise its discretion to ensure that the variable remuneration outcomes for Executive Directors are fair and do not exceed the maximum opportunity as outlined below. The Chief Risk Officer will also be engaged so that all applicable risk factors have been considered as part of the decision-making process. If Metro Bank achieves threshold performance on all metrics in the balanced scorecard, we would pay out 40% of the maximum opportunity. At least 60% of variable pay is deferred into long-term Share Awards which vest over seven years, normally in the form of share options. Share Awards will normally vest pro-rata between years three and seven with a retention period of at least one year after each vest. A further 20% is deferred into one-year vesting Share Awards; again, normally share options. The remaining 20% is paid as cash. This means a minimum of 80% of variable reward is deferred into Share Awards. Options are normally exercisable for 10 years from the date of grant. Options may be satisfied on exercise by delivering shares equal to the gain. Share Awards satisfy regulatory requirements around the deferral of variable reward under the PRA Remuneration Code and, once vested, will also be subject to a retention period of one year. Share awards are subject to malus and clawback. We use a Black-Scholes method to inform the fair value of options at the time of award and the fair value of Share Awards will never be more than the variable remuneration deferred. Share Awards will not be entitled to dividend equivalents during the vesting period. In line with the approach for all colleagues through our Bonus Exchange Scheme, Executive Directors may be allowed to 'exchange' part or all of the cash element of any variable remuneration into their Metro Bank pension, or into immediate vesting Share Awards. The cash element may be exchanged for Share Awards at an exchange 'price' approved by the Remuneration Committee. The exchange price offered to Executive Directors is on the same basis as for all other colleagues. The fair value of the Share Awards via Bonus Exchange will never be more than the cash element exchanged. There are no holding periods for these Bonus Exchange Share Awards.
Maximum potential	Total variable remuneration, including the fair value of Share Awards, for each Executive Director for any year will not exceed 200% of their base salary at the time of award.
Performance measures	Performance is measured against an annual scorecard, based on targets set for financial and non-financial measures, typically including risk, customer, people and culture. Risk-adjusted financial performance is considered. Individual behaviours and performance are also assessed. The Bank is focused on the right outcomes for customers and does not 'incentivise' the delivery of any specific targets in a linear way. Balanced scorecard performance measures will be set by the Remuneration Committee at the start of each financial year. At least 40% of measures will be based on financial indicators. The Remuneration Committee has discretion to adjust the overall variable reward pool and also individual awards for Executive Directors if it believes there are circumstances that justify such an adjustment. No more than 50% of the maximum variable remuneration (i.e. no more than 100% of base salary) will be paid for on-target performance. If threshold performance is achieved against all metrics in the balanced scorecard, 40% of the maximum opportunity would be paid.
Shareholding requirements	Executive Directors are subject to a minimum shareholding requirement equivalent to 200% of base salary. Executive Directors are expected to retain any after-tax vested Share Awards until their shareholding requirements are met, and maintain that level of shareholding (or their actual shareholding at date of leaving, if lower) for at least two years post-employment.

Our Remuneration Policy
continued

Notes to the Policy table

Area	Commentary
Deferred reward	Deferred reward in the form of share options or shares awarded subject to forfeiture shall be operated in accordance with the rules of the respective plans. The Committee may exercise operational and administrative discretions under the respective plan rules as set out in those rules.
Prior arrangements	The Committee reserves the right to make any remuneration payment and/or payments for loss of office notwithstanding that they are not in line with the Policy set out in this report, where the terms of the payment were determined before the Policy or any previous policy came into effect, or if the individual was not a Director at the date the remuneration was determined and the remuneration was not set in consideration or in anticipation of becoming a Director.
Minor amendments	The Committee will follow any statutory requirements when operating the Policy, and may make minor amendments to the Policy for regulatory, exchange control, or administrative purposes without obtaining shareholder approval for that minor amendment.
Performance measures and targets	Variable reward is based on the performance of both the Bank (financial and non-financial) and individual in the year. Performance of the Bank is based on the overall performance of the Bank in line with the balanced scorecard. The balanced scorecard typically comprises the following measures:

Measure	Rationale
Financial	To ensure delivery of strong growth in deposits, loans and profit
Risk	To safeguard the future of the Bank by focusing on our strategy to offer low-risk and diversified lending
Customer	To support our business model centred around creating FANS through our integrated customer experience
People and culture	To ensure we have dedicated colleagues focusing on our AMAZEING culture and our controls by doing the right things the right way

Individual behaviours and performance is based on the individual's AMAZEING review which supports the development of our AMAZEING culture.

AMAZEING Behaviours framework:
- Attend to every detail
- Make every wrong right
- Ask if you are not sure, bump it up
- Zest is contagious, share it
- Exceed expectations
- Inspire colleagues to create FANS
- Nurture colleagues so they grow
- Game change because this is a revolution

Area	Commentary
Malus/clawback	Malus and clawback apply to all elements of variable remuneration. Cash bonus and Share Awards may be delayed or reduced before they are paid/before they vest (malus) or may be subject to clawback on or after payment should the Committee conclude that an adjustment needs to be made. Clawback may be applied up to seven years from the award date, or ten years where an investigation has commenced. While not exhaustive, malus and/or clawback may be applied in the following situations where: • There is a restatement of accounts • A material failure of risk management has occurred • A material downturn in financial performance has taken place • Conduct of an Executive Director has, in the opinion of the Remuneration Committee, caused serious harm to the reputation of and/or significant financial loss to the Bank • An error has occurred in the calculation of the vesting of an award relating to an Executive Director that resulted in an overpayment • The Remuneration Committee deems it appropriate to take into account to comply with any regulations or guidance published by a relevant regulator from time to time • A payment/award has been made based on erroneous or misleading data, misconduct, misstatement of accounts, serious reputational damage and corporate failure

Area	Commentary
Discretion in relation to future operation of the policy	In the event of a variation of the Company's share capital or a demerger, special dividend or any other event that may affect the Company's share price, the number of shares subject to an award and/or any exercise price applicable to the award, may be adjusted. The Committee may amend any performance conditions applicable to variable pay awards if any event occurs which causes the Committee to consider an amended performance condition would be more appropriate and not materially less difficult to satisfy.
Remuneration policy for other colleagues	The remuneration structure for Executive Directors is aligned with the wider employee population. Performance conditions for variable pay awards are similar to those for all colleagues and we apply the same Company performance multiplier to variable pay awards to all colleagues across the Bank. Further details are provided on page 85.

Approach to remuneration when recruiting Executive Directors

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

The following table outlines the components of remuneration considered as part of the remuneration package for a new Executive Director, along with the approach that would be followed.

Component	Approach
Base salary	Base salary will be determined by virtue of the individual's role, experience and responsibility. External market commentary will also be considered.
Pension	Pension contributions will be set at a level aligned with or less than that available to the majority of the wider workforce.
Benefits	Benefits that are offered to all colleagues will be provided to newly appointed Executive Directors. We may also choose to pay allowances to enable us to hire someone who will need to live away from home in order to be employed by us, which may include assistance with children's education, periodic trips home, spouse and children's travel amongst others.
Variable remuneration	The maximum variable remuneration opportunity for the performance period in which the Executive Director joined would be determined by the Remuneration Policy and the Committee would consider whether it is appropriate to reduce the award, subject to time in role.
Shareholding requirement	Newly appointed Executive Directors will be given a reasonable timeframe to build up their shareholding to meet the minimum requirements as set out in this policy. Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary, normally within five years from the date of appointment as executive director. Executive Directors will have a reasonable period to build up to this requirement if it is not met because of exceptional circumstances, for example a significant share price depreciation.
Buy-out	The Committee has the flexibility to make compensatory awards to new Executive Directors, to compensate the Executive Director for benefits they may lose as a result of joining Metro Bank (buy-out). These awards will: • be made up of the same inputs as the normal variable remuneration for Metro Bank colleagues and Executive Directors; • consider the value of the forfeited awards at the time of resignation (using an appropriate valuation methodology); • be in a similar form as the awards which are being lost, where possible; • vest over a similar or longer time period than the awards being lost; and • be subject to comparable service and consider performance conditions and be subject to continued employment. The limit on variable remuneration described on page 101 will not apply to these compensatory awards. The flexibility to offer a higher level of variable remuneration to new recruits, through compensatory awards, is required to give the Company flexibility when negotiating with potential new recruits.

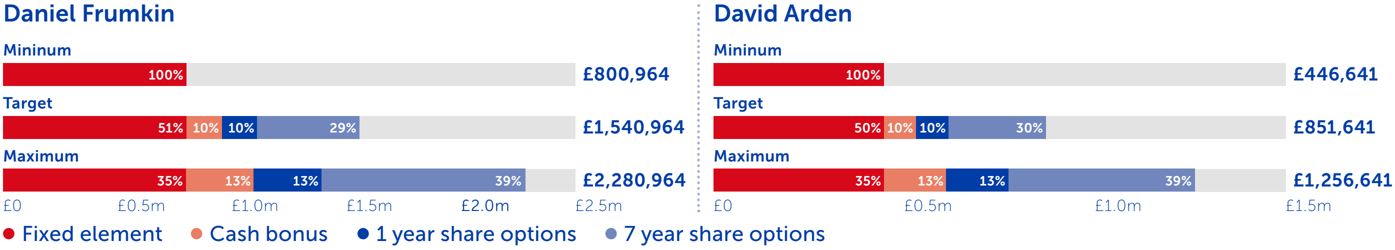
Our Remuneration Policy
continued

Illustration of application of Remuneration Policy

The graphs below illustrate the potential total remuneration for each Executive Director in office at 1 January 2020 under the revised policy for the 2020 performance year. Three scenarios are considered:

- Minimum: Considers fixed elements of package only, including salary, pension and benefits
- On-target: Fixed remuneration and variable remuneration assuming on-target performance (50% of the maximum opportunity)
- Maximum: Fixed remuneration and maximum variable remuneration
- Fixed element is:
  - base salary
  - pension contribution of 8% for the CEO and 10% for the CFO
  - benefits as outlined in the policy table for which we have used the value derived as part of the single-figure calculations

Minimum (fixed only), on-target and maximum potential annual variable remuneration that may be awarded:



Note

1 These illustrations are based on salaries as at 1 April 2020 and consider the cash amount of annual variable remuneration before conversion into Share Awards as described on page 101. No account is taken of the effect of share price changes or dividends on the value received from Share Awards or shares received under them.

Remuneration on or after termination

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

Component of pay	Determination
Salary/fees and benefits	The Executive Director is entitled to be given notice of termination of the relevant length and receive their normal base salary and benefits in that time. The Bank has discretion to make a payment in lieu of base salary in respect of any unexpired notice period and may decide to pay this in instalments, subject to reduction if the Executive Director finds alternative employment. Benefits will continue until the last day of contractual employment and the accrued but unused holiday will be paid out. Appropriate outplacement and legal support will be provided where required.
Variable pay	Variable remuneration may accrue during a notice period, however (unless decided otherwise by the Remuneration Committee at its discretion) the Executive Director usually has to be employed at the date that any variable remuneration is awarded in order to be eligible to receive it. No variable remuneration is payable after termination and previous unvested variable reward deferred into Share Awards will usually lapse. However, if the Executive Director leaves for the reasons detailed in the Deferred Variable Reward Plan Rules (e.g. ill health, retirement, redundancy or death) or in other circumstances at the discretion of the Remuneration Committee, their award under that plan will usually continue on the same terms (subject to reduction and clawback as described in the policy) and usually vest at the normal time provided any performance conditions are met.
Pension	Pension contributions continue to be made during the notice period. No further payment in lieu of pension or pension contributions can be made after termination. Any benefits will become payable in the normal course in accordance with the rules of the scheme. There is no right to early payment of pension benefits unless this can be done without additional contribution from the Bank.
Post-cessation shareholding requirements	Upon departure, Executive Directors will be required to retain 100% of their shareholding requirement (or actual holding if lower) for a period of two years post-cessation.

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

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

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

External appointments

Executive Directors are permitted to accept one appointment on a Board or Committee of a listed company, subject to approval of the Board. When reviewing the appropriateness of an external appointment, the Board will consider:

- Any regulatory guidance that may be in place at the time
- Whether the appointment would interfere or conflict with the business of the Company

Any fees received in respect of these appointments can be retained directly by the relevant Executive Director.

Details of external appointments held by our Executive Directors can be found in our governance report on pages 54 and 55.

Components of remuneration for all other colleagues

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

For all colleagues beneath our Executive Directors, whether they are on our Executive Leadership Team or not, we offer a simple approach to compensation which supports our unique culture and strategy as well as being aligned to shareholder needs. This is just like our approach to remuneration for our Executive Directors as outlined in section 1 of this policy.

Both our annual salary increase budget and our annual variable remuneration budget are determined by company performance and affordability.

During the year, the Remuneration Committee will also receive updates on overall pay and conditions for colleagues across the Bank. Ahead of our annual reward review process, the Remuneration Committee will opine on the quantum to be made available for salary increases, annual bonus awards and the Deferred Variable Reward Plan.

Included in the decision making, they will discuss proposals for the Executive Directors as well as considering metrics such as the CEO pay ratio (page 90) and also the gender pay gap.

Executive Directors are also offered the same benefits that are offered to colleagues across the Bank, primarily our pension scheme, private medical insurance, life assurance and our ShareBuy plan.

Statement of consideration of employment conditions elsewhere in the Bank

We offer a simple approach to compensation for all colleagues which supports our unique culture and strategy as well as being aligned to shareholder needs. 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.

During the year, the Remuneration Committee receives updates on overall pay and conditions for colleagues across the Bank and this was taken into account when setting the Directors' Remuneration Policy. In particular, the base salary for Executive Directors is limited by reference to colleague pay, and ahead of our annual reward review process, the Remuneration Committee will opine on the quantum to be made available for salary increases, annual bonus awards and the Deferred Variable Reward Plan.

The Company does not specifically invite colleagues to comment on the Directors' Remuneration Policy, although colleagues are able to express their views on pay through regular surveys and feedback, as well as through our designated workforce engagement Director.

Statement of consideration of shareholder views

The Committee welcomes shareholders' views on executive remuneration and seeks to maintain an active and open dialogue with investors regarding any changes to the Company's executive pay arrangements. The Directors have regular open discussions with investors and are available for feedback on reward matters.

In the review of the Remuneration Policy, the Committee engaged with shareholders during 2019 and early 2020 in order that shareholders could express their views on the proposals. The Remuneration Committee takes very seriously the view of shareholders when making any changes to executive remuneration, and will continue to acknowledge any feedback in reviewing our policy in future.

Our Remuneration Policy
continued

9. COMPONENTS OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS

Component of pay	Determination
Fees	All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of Committees, or acting as the Senior Independent Director or designated Director for Workforce Engagement. Fees for Committee chairmanship are paid in addition to any fees for Committee membership. The Non-Executive Chairman receives an annual fee for the performance of his role. This fee is agreed by the Remuneration Committee. Fees for both Non-Executive Directors and the Non-Executive Chairman are paid in cash, subject to the appropriate deductions. The amount payable takes into account: the time commitment and requirements of the role; individual performance and experience; benchmark data from appropriate market sources and the financial performance of the Bank as well as other relevant factors. The basic and additional fees are typically reviewed annually, drawing on external market information for comparable financial services groups and companies. Any increase normally takes effect from April of a given year. The maximum aggregate annual fees that can be paid to the Chairman and Non-Executive Directors are capped at £3,000,000.
Benefits	Non-Executive Directors do not participate in any pension, bonus or long-term incentive arrangements or receive any other benefits. Travel and expenses incurred in the normal course of business, e.g. in relation to attendance at Board and Committee meetings, are met by the Bank. Non-Executive Directors are reimbursed for reasonable expenses and any tax arising on those expenses will typically be settled by the Bank.
Fees on recruitment	The fees payable to a new Non-Executive Director will be consistent with the current basic fee structure in place for all Non-Executive Directors and reflect any additional responsibilities such as Chairman or member of Board Committees. The fees payable to a new Non-Executive Chairman will be set with reference to external market data, internal relativity among other Executive and Non-Executive Directors and the requirements of the role.
Letters of appointment	Appointment letters for the Non-Executive Directors provide for a notice period of one month, during which time they are entitled to be paid their normal fees or payment in lieu without liability for compensation. There is no provision for any other early termination compensation and no payment for loss of office.

When appointing any new Non-Executive Directors to the Board, the Nomination Committee will consider regulatory guidance relating to outside appointments and whether the candidate can devote sufficient time to their Board roles.

Directors' report

The Directors have pleasure in presenting their Annual Report for the year ended 31 December 2019. 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 52 to 106.

The Directors consider the Annual Report for the year ended 31 December 2019, 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 2019 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 119.

No dividend was declared or paid during 2019 (2018: £nil). The Directors do not anticipate declaring a dividend in the near future.

SIGNIFICANT EVENTS

In February 2019, the Bank was awarded the Pool A funding of £120 million from BCR Ltd as part of the Capability and Innovation Fund. The funds are being used to enhance the mobile offerings to the Bank's SME customers as well as more advanced business current accounts and ancillary products. Following a change to our strategy, a revised business case was submitted to BCR, and as part of this it was agreed that £50 million of the grant will be returned to BCR.

Further to the authority granted by shareholders at a General Meeting on 3 June 2019, a further 75,000,000 new ordinary shares of an aggregate nominal value of 0.0001 pence were issued at £5.00 per share. The new shares were admitted for trading on the London Stock Exchange on 5 June 2019.

In July 2019, the Bank disposed of a £521 million loan portfolio. The disposed portfolio was not considered a strategic asset, with its sale having no impact on the Bank's customer franchise, given it was continually serviced by an external provider.

During the year, we successfully priced a £350 million MREL-Eligible Debt Issuance with an order book in excess of £550 million which allowed the issuance to be upsized from the original size of £300 million.

ARTICLES OF ASSOCIATION

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

SHARE CAPITAL

As at 31 December 2019, the issued share capital of the Company was £172.42 comprising 172,420,458 ordinary shares of 0.0001p each. Further details of our called-up share capital, together with details of shares allotted during the year, is shown in note 26 to the financial statements on page 152.

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 regard 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.

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

DIRECTORS

Details of the Directors who served during the year and continue to serve at the date of approval of the Directors' report are set out on pages 54 to 55. Howard Flight, Keith Carby, Ben Gunn, Vernon W. Hill, II and Craig Donaldson stepped down as Directors during 2019.

Directors are appointed and replaced in accordance with the Company's Articles, the Companies Act 2006 (the 'Act') and the UK Corporate Governance Code. The powers of the Directors are set out in the Company's Articles and the Act.

Directors' report

continued

DIRECTORS' INTERESTS

Details of the Directors' beneficial interests are set out in the annual report on remuneration on page 93.

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 63.

PROVISIONS ON CHANGE OF CONTROL

The Company's share plan contains provisions relating to a change of control. Outstanding share options and awards may vest and become exercisable on a change of control subject to the Remuneration Committee's discretion. Save in respect of provisions of the Company's share plan, there are no other agreements between the Company and its Directors or colleagues providing compensation for loss of office or employment that occur following a takeover. Certain of the Company's third-party supplier agreements may become terminable upon a change of control of the Company.

MAJOR INTERESTS IN SHARES

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

As at 3 April 2020, 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.

Shareholder	Ordinary shares held	% of total ordinary shares	Direct/ indirect interest
Spaldy Investments Limited	15,549,496	9.018	Direct
Spruce House Partnership	12,133,642	7.04	Direct
Davis Selected Advisers	9,191,516	5.33	Indirect
683 Capital Management	7,050,000	4.09	Indirect
Ennismore Fund Management Limited	5,290,284	3.07	Indirect
Ruane, Cunniff and Goldforb	5,020,755	5.15	Direct
Hound Partners	4,763,731	4.89	Indirect
Norges Bank	3,023,256	3.10	Direct

GREENHOUSE GAS EMISSIONS

Our energy consumption and associated greenhouse gas emissions during 2019 are set out in the Strategic report on page 47.

EMPLOYEE INVOLVEMENT

We encourage colleague involvement in the Bank. Increasing colleague awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. All colleagues 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 44 of the Strategic report.

DIVERSITY

Our Diversity and Inclusion Policy outlines our commitment to employment policies which follow best practice, based on equal opportunities for all colleagues. 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 and fairly considered, bearing in mind the abilities and aptitudes of the applicant concerned. In the event of colleagues 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 colleagues.

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 during 2019 can be found on page 48. 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.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Directors confirm that they have undertaken a robust assessment of the emerging and 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 18 to 39. 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 report.

GOING CONCERN

The Board considers it appropriate for the Group to adopt the going concern basis in the preparing its financial statements.

VIABILITY STATEMENT

Our Viability statement is set out on page 19.

AUDITORS

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

POLITICAL DONATIONS

We made no political donations in the year ending 31 December 2019 (2018: £nil).

RESEARCH AND DEVELOPMENT

We continue to invest in our digital offering. During the year, we spent £79 million on intangible assets.

POST BALANCE SHEET EVENTS

A summary of the key post balance sheet events is set out in note 38 to the financial statements on page 172.

ANNUAL GENERAL MEETING

Details of this year's AGM can be found in the shareholder information section on page 180.

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, note 29 to the financial statements
Contracts of significance	Any contracts of significance or related party transactions can be found in note 35 to the financial statements

Directors' report
continued

CORPORATE GOVERNANCE STATEMENT

The corporate governance report on pages 56 to 63 in accordance with Rule 7.2 of the Disclosure and Transparency Rules and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and parent company financial statements in accordance with IFRSs as adopted by the European Union. 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 parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

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

The Directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names are listed on pages 54 and 55 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

The Directors' report comprising pages 107 to 110 has been approved by the Board of Directors and signed on its behalf by

David Arden
Chief Financial Officer and Company Secretary
16 April 2020

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 ("the Group") financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's loss and the Group's and the 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 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 & Accounts 2019 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2019; the Consolidated statement of comprehensive income, the Consolidated and Company cash flow statements, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

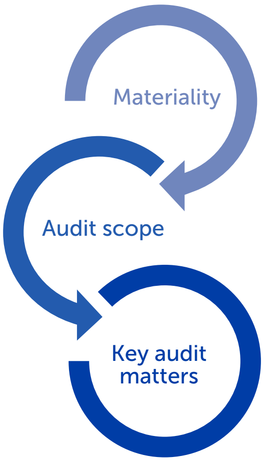
Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Independent auditors' report continued

To the members of Metro Bank PLC

Our audit approach

Overview



- Overall Group materiality: £2.6 million (2018: £1.8 million), based on 5% of the average consolidated profit or loss before tax of the last 5 years.
- Overall Company materiality: £2.7 million (2018: £1.9 million), based on 5% of the average Company 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 components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over 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, tests of detail and analytical review procedures to mitigate the risk of material misstatement in the non-financially significant components.

- Determination of Expected Credit Losses ("ECLs") on loans and advances (Group and Company).
- Recognition of revenue on loans and advances (Group and Company).
- Carrying value of intangible assets (excluding goodwill) (Group and Company).
- Potential impact of COVID-19 (Group and Company).

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 its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority ("FCA"), Prudential Regulatory Authority ("PRA"), UK tax legislation and the Consumer Credit Act 1974 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 manual journal entries to manipulate financial performance 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 design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing correspondence with regulators, such as the FCA and the PRA 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, revenue recognition, and the assessment of the carrying value of intangible assets (excluding goodwill), (see related key audit matters below); and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting processes.

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

Determination of allowance for Expected Credit Losses ('ECL') on loans and advances *(Group and Company)*

Refer to page 70 (Audit Committee report), page 128 (Note 1: Basis of preparation and significant accounting policies) and page 155 (Note 30: Expected credit losses).

The methodology used by the Bank to determine ECLs requires a number of important assumptions and judgements to be made. Those 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 or when a loan is credit impaired, and hence whether a 12 month or lifetime loss provision is recorded;
- The measurement of ECL on stage 3 loans individually assessed; 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.

How our audit addressed the key audit matter

We evaluated and tested key controls around the determination of the allowance for ECL, including the periodic model review, validation and approval, and the identification of credit impairment events.

We determined that these controls tested were designed, implemented and operated effectively and therefore that we could place reliance on them for the purposes of our audit.

We performed the following substantive audit procedures in order to assess the performance of the ECL models implemented and the appropriateness of management's key judgements and estimates in the context of the current economic environment and our wider industry experience.

We engaged the support of credit modelling specialists in the substantive procedures set out below.

PD and LGD rates

- We 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.

Staging

- 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.

Measurement of ECL on Stage 3 loans individually assessed

For a sample of Stage 3 credit impaired loans, we:

- Critically evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management;
- Independently challenged whether the key assumptions used, such as the recovery strategies, expected cashflows, collateral rights and valuations and ranges of potential outcomes, were appropriate, given the borrower's circumstances; and
- Re-performed management's allowance calculation.

Forward looking information and multiple economic scenarios

- We assessed the reasonableness of the forward-looking information used by management in the impairment model, by comparing the forward-looking assumptions to publicly available forecasts, including those published by the Bank of England.
- We assessed the reasonableness of 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 impact of 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.

Based on our procedures and the evidence assessed, we found the methodologies, modelled assumptions, judgements and data used by management in their determination of allowance for ECLs be reasonable and to be materially compliant with the requirements of IFRS 9.

Independent auditors' report continued
To the members of Metro Bank PLC

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue on loans and advances ***(Group and Company)*** *Refer to page 70 (Audit Committee report) and page 130 (Note 2: Net interest income).* 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 behavioural lives. The determination of loans' behavioural lives involves the use of estimates, as the Group has limited historical experience of the performance of certain portfolios.	We evaluated and tested the key controls around the identification of upfront costs and fees and determination of their treatment, the accuracy of the effective interest calculation, and the determination and approval of the assumptions used in the estimation of the behavioural lives of loans and advances. We determined that the controls tested were designed, implemented and operating effectively and therefore we determined that we could place reliance on them for the purposes of our audit. Our substantive testing assessed the application of judgement to the treatment of effective interest rate accounting for fees and costs, including; • The identification of fees and costs which are directly attributable to the lending; • The estimation of behavioural lives of the loans, over which those amounts are spread; and • The effective interest rate method used. We tested key data inputs and assumptions to supporting documentation, and stressed the estimates applied, to assess whether they were appropriate. Based on the work performed, we found the methodology, judgements and estimates used to be appropriate and materially compliant with the requirements of IFRS 9.
Carrying values of intangible assets (excluding goodwill) ***(Group and Company)*** *Refer to page 67 (Audit Committee report) and page 143 (Note 15: Intangible assets).* The Group capitalises certain spend, in the development of systems and infrastructure designed to support its business strategy, as intangible assets. Following the announcement of the Group's strategic review, a number of those intangible assets have been determined to no longer be required, and impairment has been recorded in the period. The assets primarily consisted of projects that were work in progress that have now been abandoned as well as older assets that were felt to no longer provide demonstrable future economic benefits under the new strategy. The Directors have evaluated the intangible assets for impairment, and where relevant estimated the recoverable amounts of those assets. Where the assets do not independently generate cash flows, they have been incorporated into a relevant cash generating unit ("CGU") and the recoverable amount of that CGU has been determined. The relevant CGU was considered to be the Bank. The determination of recoverable amounts require management to estimate the higher of value in use, where judgement is required to estimate cash flow projections, long term growth rates, and cash flow discount rates, and the fair value less costs to sell, which also requires judgement given the bespoke nature of some of the assets	We evaluated the design and implementation of key controls around the carrying value assessments performed by management. We performed the following substantive audit procedures over the impairment assessments: • Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements, including management's determination of the relevant cash generating unit; • For a sample of impaired and unimpaired intangible assets, we obtained and assessed management's analysis by validating assertions made against supporting evidence obtained through specific enquiry of management and IT personnel, review of business plans and IT strategies, and minutes of relevant Board and Committee meetings; • Assessed the recoverable amount determined by management against the evidence obtained, and tested the accuracy of the impairment losses recorded; • Obtained management's cash generating unit impairment assessment calculations and tested the forecast cash flows to the latest approved Board plans; and • Evaluated the key assumptions in these forecasts and plans, and evaluated the evidence provided to corroborate them, with a focus on the income growth plans, the investment and cost savings plans and those related to areas such as capital requirements. We assessed the useful economic lives over which intangible assets are being amortised, against the evidence obtained, with a focus on the underlying business use cases or the purpose to which the asset was being deployed. We identified a number of exceptions through our testing of the specific intangible asset assessments. These were resolved by management and adjusted for. With respect to the carrying value assessment performed in relation to the Bank cash generating unit, we found the key assumptions to be reasonable and supportable, and the assessment to be materially compliant with the requirements of IAS 36.

Key audit matter	How our audit addressed the key audit matter
Potential impact of COVID-19 **_(Group and Company)_** *Refer to page 17 (Strategic report), page 38 (Risk report) and page 172 (Note 38: Post balance sheet events).* There is a global pandemic of COVID-19 which, subsequent to the year end, has taken hold in the UK where the Group operates. This has been disruptive to financial markets and normal patterns of human behaviour. This is anticipated to translate into an adverse impact on the global economy. In response, the UK and other governments, and the Bank of England, have announced measures, such as lowering the base rate and countercyclical buffer, designed to ameliorate resulting adverse impacts on the economy. The Directors have specifically considered the impact on the financial statements, including the post balance sheet event disclosures and its impact on their going concern assessment through evaluating the impact on the Bank's capital and liquidity position. The Directors have concluded that the matter is a non-adjusting post balance sheet event, the financial effect of which cannot be reliably estimated at this stage.	We critically assessed the Directors' conclusions that the matter be treated as a non-adjusting post balance sheet event and that the impact cannot be reliably estimated at this stage. We considered: • The timing and development of the outbreak across the world; • The timing and nature, in particular, of UK government advice to UK citizens; and • How the financial statements might be impacted by the aforementioned disruption and the complexity in measuring such impacts. In assessing the Directors' going concern assessment , we evaluated whether it considered impacts arising from COVID-19. Our procedures in this respect included: • Evaluating management's assessment of the impact of COVID-19 and UK economic conditions on the Bank's capital and liquidity position, and operating plans; and • Substantiating the Bank's liquid assets held at the Bank of England, and its ability to access Bank of England liquidity facilities. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and reflected in the financial statements.

How we tailored the audit scope

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

The Group comprises three components: Metro Bank PLC (being the Company), SME Invoice Finance Limited and SME Asset Finance Limited. Any components which were considered individually financially significant in the context of the Group's consolidated financial statements (defined as components that represent more than or equal to 10% of the total assets of the consolidated Group) were considered full scope components.

We considered the individual financial significance of other components in relation to primary statement account balances and the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances.

All remaining components which were not individually financially significant were subject to procedures which addressed the risk of material misstatement including testing of entity level controls, information technology general controls, specific tests of detail and Group and component level analytical review procedures.

Components within the scope of our audit contributed 98% of Group total assets and 97% of Group total income.

Independent auditors' report continued

To the members of Metro Bank PLC

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£2.6 million (2018: £1.8 million).	£2.7 million (2018: £1.9 million).
How we determined it	5% of the average consolidated profit or loss before tax of the last 5 years.	5% of the average Company 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 Company. We allocated a materiality of £2.5 million to the Company, which is less than our overall Group audit materiality. As the allocated materiality for the Company is below the statutory materiality, we have audited the Company using this lower component materiality. We have audited certain account balances within non-financially significant components to the relevant component's statutory materiality, which is also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £132,000 (Group audit) (2018: £86,000) and £133,000 (Company audit) (2018: £86,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) 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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The Directors' confirmation on page 109 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 19 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

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

- The statement given by the Directors, on page 107, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 66 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the statement of Directors' responsibilities in respect of the financial statements set out on page 110, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditors' report continued

To the members of Metro Bank PLC

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

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 each Annual General Meeting. The period of total uninterrupted engagement is 10 years, covering the years ended 31 December 2010 to 31 December 2019.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2020

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'million	Year ended 31 December 2018 £'million
Interest income	2	**496.2**	444.4
Interest expense[1]	2	**(188.1)**	(114.3)
Net interest income		**308.1**	330.1
Fee and commission income	3	**67.4**	42.5
Fee and commission expense	3	**(6.4)**	(4.9)
Net fee and commission income		**61.0**	37.6
Net gains on sale of assets	4	**1.6**	10.7
Other income	5	**44.9**	25.7
Total income		**415.6**	404.1
General operating expenses[1]	6	**(380.6)**	(305.6)
Depreciation and amortisation[1]	14, 15	**(76.4)**	(45.1)
Impairment and write-offs of property, plant, equipment and intangible assets	14, 15	**(77.7)**	(4.8)
Total operating expenses		**(534.7)**	(355.5)
Expected credit loss expense	30	**(11.7)**	(8.0)
(Loss)/profit before tax		**(130.8)**	40.6
Taxation	9	**(51.8)**	(13.5)
(Loss)/profit for the year		**(182.6)**	27.1
Other comprehensive income/(expense) for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax):			
– changes in fair value	28	**2.7**	(2.4)
– fair value changes transferred to the income statement on disposal	28	**(2.4)**	(1.5)
Total other comprehensive income/(expense)		**0.3**	(3.9)
Total comprehensive (loss)/profit for the year		**(182.3)**	23.2
Earnings per share			
Basic (pence)	36	**(123.9)**	29.1
Diluted (pence)	36	**(123.9)**	28.2

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[1] On 1 January 2019 we adopted IFRS 16 Leases. We have adopted IFRS 16 on the modified retrospective basis and as such the comparators have not been restated. Further details can be found in note 1.5.

The accounting policies, notes and information on pages 126 to 172 form part of these financial statements.

Consolidated balance sheet

As at 31 December 2019

	Notes	31 December 2019 £'million	31 December 2018 £'million
Assets			
Cash and balances with the Bank of England	11	**2,989**	2,472
Loans and advances to customers	12	**14,681**	14,235
Investment securities held at fair value through other comprehensive income ('FVOCI')	13	**411**	674
Investment securities held at amortised cost	13	**2,154**	3,458
Property, plant and equipment[1]	14	**856**	454
Intangible assets	15	**168**	197
Prepayments and accrued income	16	**66**	66
Deferred tax asset	9	**–**	41
Other assets	17	**75**	50
Total assets		**21,400**	21,647
Liabilities			
Deposits from customers	18	**14,477**	15,661
Deposits from central banks	19	**3,801**	3,801
Debt securities	20	**591**	249
Repurchase agreements		**250**	344
Derivative financial liabilities	21	**8**	1
Lease liabilities[1]	22	**341**	–
Deferred grants	23	**50**	–
Provisions	24	**17**	2
Deferred tax liability	9	**15**	–
Other liabilities	25	**267**	186
Total liabilities		**19,817**	20,244
Equity			
Called-up share capital	26	**–**	–
Share premium	26	**1,964**	1,605
Retained earnings	27	**(392)**	(209)
Other reserves	28	**11**	7
Total equity		**1,583**	1,403
Total equity and liabilities		**21,400**	21,647

[1] On 1 January 2019 we adopted IFRS 16 Leases. We have adopted IFRS 16 on the modified retrospective basis and as such the comparators have not been restated. Further details can be found in note 1.5.

The accounting policies, notes and information on pages 126 to 172 form part of these financial statements.

The financial statements on pages 119 to 172 were approved by the Board of Directors on 16 April 2020 and signed on its behalf by:

Sir Michael Snyder
Interim Chairman

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Called-up share capital £'million	Share premium £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2019	**–**	**1,605**	**(209)**	**(3)**	**10**	**1,403**
Loss for the year	–	–	(183)	–	–	(183)
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	–	–	–	–	–	–
Total comprehensive loss	–	–	(183)	–	–	(183)
Shares issued	–	375	–	–	–	375
Cost of shares issued	–	(16)	–	–	–	(16)
Net share option movements	–	–	–	–	4	4
Balance as at 31 December 2019	**–**	**1,964**	**(392)**	**(3)**	**14**	**1,583**
Balance as at 1 January 2018	–	1,304	(236)	1	16	1,085
Profit for the year	–	–	27	–	–	27
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	–	–	–	(4)	–	(4)
Total comprehensive income	–	–	27	(4)	–	23
Shares issued	–	304	–	–	–	304
Cost of shares issued	–	(3)	–	–	–	(3)
Net share option movements	–	–	–	–	(6)	(6)
Balance as at 31 December 2018	–	1,605	(209)	(3)	10	1,403
Notes	26	26	27	28	28	

The accounting policies, notes and information on pages 126 to 172 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'million	Year ended 31 December 2018 £'million
Reconciliation of (loss)/profit before tax to net cash flows from operating activities:			
(Loss)/profit before tax		(131)	41
Adjustments for:			
Impairment and write-offs of property, plant, equipment and intangible assets	14, 15	78	5
Interest on lease liabilities[1]	2	18	–
Depreciation and amortisation[1]	14, 15	76	45
Share option charge	7	4	5
Grant income recognised in the income statement	5	(16)	–
Amounts provided for	6	12	–
Gain on sale of assets and fair value gains on derivatives		(2)	(11)
Accrued interest on and amortisation of investment securities		(8)	(7)
Changes in operating assets and liabilities			
Changes in loans and advances to customers	12	(445)	(4,615)
Changes in deposits from customers	18	(1,184)	3,992
Changes in other operating assets		(26)	(36)
Changes in other operating liabilities		(31)	734
Net cash (outflows)/inflows from operating activities		(1,655)	153
Cash flows from investing activities			
Sales of investment securities		2,193	1,522
Purchase of investment securities		(618)	(1,740)
Purchase of property, plant and equipment	14	(120)	(150)
Purchase and development of intangible assets	15	(79)	(75)
Net cash inflows/(outflows) from investing activities		1,376	(443)
Cash flows from financing activities			
Shares issued	26	375	304
Cost of shares issued	26	(16)	(3)
Debt issued	20	350	250
Cost of debt issued	20	(8)	(1)
Grant received	23	120	–
Repayment of capital element of leases[1]	22	(25)	–
Net cash inflows from financing activities		796	550
Net increase in cash and cash equivalents		517	260
Cash and cash equivalents at start of year	11	2,472	2,212
Cash and cash equivalents at end of year	11	2,989	2,472
(Loss)/profit before tax includes:			
Interest received		493	437
Interest paid		174	105

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1. On 1 January 2019 we adopted IFRS 16 Leases. We have adopted IFRS 16 on the modified retrospective basis and as such the comparators have not been restated. Further details can be found in note 1.5.

The accounting policies, notes and information on pages 126 to 172 form part of these financial statements.

Company balance sheet

As at 31 December 2019

	Notes	31 December 2019 £'million	31 December 2018 £'million
Assets			
Cash and balances with the Bank of England	11	**2,983**	2,446
Loans and advances to customers	12	**14,381**	13,940
Investment securities held at fair value through other comprehensive income ('FVOCI')	13	**411**	674
Investment securities held at amortised cost	13	**2,154**	3,458
Property, plant and equipment[1]		**856**	454
Investment in subsidiaries		**15**	15
Intangible assets	15	**162**	190
Prepayments and accrued income	16	**63**	63
Deferred tax asset		**–**	40
Other assets	17	**365**	355
Total assets		**21,390**	21,635
Liabilities			
Deposits from customers	18	**14,477**	15,661
Deposits from central banks	19	**3,801**	3,801
Debt securities	20	**591**	249
Repurchase agreements		**250**	344
Derivative financial liabilities	21	**8**	1
Lease liabilities[1]	22	**341**	–
Deferred grants	23	**50**	–
Provisions	24	**17**	2
Deferred tax liability	9	**15**	–
Other liabilities	25	**262**	179
Total liabilities		**19,812**	20,237
Equity			
Called-up share capital	26	**–**	–
Share premium	26	**1,964**	1,605
Retained earnings[2]	27	**(397)**	(214)
Other reserves	28	**11**	7
Total equity		**1,578**	1,398
Total equity and liabilities		**21,390**	21,635

1. On 1 January 2019 we adopted IFRS 16 Leases. We have adopted IFRS 16 on the modified retrospective basis and as such the comparators have not been restated. Further details can be found in note 1.5.
2. The Company loss for the year was £182.6 million (2018: profit of £29.0 million).

The accounting policies, notes and information on pages 126 to 172 form part of the financial statements.

The financial statements on pages 119 to 172 were approved by the Board of Directors on 16 April 2020 and signed on its behalf by:

Sir Michael Snyder
Interim Chairman

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer

Company statement of changes in equity

For the year ended 31 December 2019

	Called-up share capital £'million	Share premium £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2019	**–**	**1,605**	**(214)**	**(3)**	**10**	**1,398**
Loss for the year	**–**	**–**	**(183)**	**–**	**–**	**(183)**
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive loss	**–**	**–**	**(183)**	**–**	**–**	**(183)**
Shares issued	**–**	**375**	**–**	**–**	**–**	**375**
Cost of shares issued	**–**	**(16)**	**–**	**–**	**–**	**(16)**
Net share option movements	**–**	**–**	**–**	**–**	**4**	**4**
Balance as at 31 December 2019	**–**	**1,964**	**(397)**	**(3)**	**14**	**1,578**
Balance as at 1 January 2018	–	1,304	(241)	1	16	1,080
Profit for the year	–	–	27	–	–	27
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	–	–	–	(4)	–	(4)
Total comprehensive income	–	–	27	(4)	–	23
Shares issued	–	304	–	–	–	304
Cost of shares issued	–	(3)	–	–	–	(3)
Net share option movements	–	–	–	–	(6)	(6)
Balance as at 31 December 2018	–	1,605	(214)	(3)	10	1,398
Notes	26	26	27	28	28	

The accounting policies, notes and information on pages 126 to 172 form part of these financial statements.

Company cash flow statement

For the year ended 31 December 2019

	Notes	Year ended 31 December 2019 £'million	Year ended 31 December 2018 £'million
Reconciliation of (loss)/profit before tax to net cash flows from operating activities:			
(Loss)/profit before tax		**(131)**	40
Adjustments for:			
Impairment and write-offs of property, plant, equipment and intangible assets		**78**	5
Interest on lease liabilities[1]		**18**	–
Depreciation and amortisation[1]		**75**	45
Share option charge		**4**	4
Grant income recognised in the income statement		**(16)**	–
Amounts provided for		**12**	–
Gain on sale of assets and fair value gains on derivatives		**(2)**	(8)
Accrued interest on and amortisation of investment securities		**(8)**	(7)
Changes in operating assets and liabilities			
Changes in loans and advances to customers	12	**(441)**	(4,547)
Changes in deposits from customers	18	**(1,184)**	3,992
Changes in other operating assets		**(14)**	(128)
Changes in other operating liabilities		**(25)**	732
Net cash (outflows)/inflows from operating activities		**(1,635)**	128
Cash flows from investing activities			
Sales of investment securities		**2,193**	1,526
Purchase of investment securities		**(618)**	(1,740)
Purchase of property, plant and equipment		**(120)**	(150)
Purchase and development of intangible assets	15	**(79)**	(75)
Net cash inflows/(outflows) from investing activities		**1,376**	(439)
Cash flows from financing activities			
Shares issued	26	**375**	304
Cost of shares issued	26	**(16)**	(3)
Debt issued	20	**350**	250
Cost of debt issued	20	**(8)**	(1)
Grant received	23	**120**	–
Repayment of capital element of leases[1]	22	**(25)**	–
Net cash inflows from financing activities		**796**	550
Net increase in cash and cash equivalents		**537**	239
Cash and cash equivalents at start of year	11	**2,446**	2,207
Cash and cash equivalents at end of year	11	**2,983**	2,446
(Loss)/profit before tax includes:			
Interest received		**483**	425
Interest paid		**174**	105

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1. On 1 January 2019 we adopted IFRS 16 Leases. We have adopted IFRS 16 on the modified retrospective basis and as such the comparators have not been restated. Further details can be found in note 1.5.

The accounting policies, notes and information on pages 126 to 172 form part of these financial statements.

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 06419578). The 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. They were authorised by the Board for issue on 16 April 2020.

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. This includes having sufficient liquidity and capital to meet all regulatory requirements.

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 a Company statement of comprehensive income and related notes that form a part of these financial statements.

1.3 Functional and presentation currency

These financial statements are presented in pound sterling, which is the Bank's functional currency. All amounts have been rounded to the nearest £1 million and £0.1 million for balance sheet and income statement line items respectively, except where otherwise indicated.

1.4 Cash flow statement

The 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, (loss)/profit before tax is adjusted for non-cash items and changes in other assets and liabilities to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method which directly reports the cash effects of the transactions.

1.5 Changes in accounting policy and disclosures

The only changes to our accounting policies arose from the adoption of IFRS 16 'Leases'. Additionally, we have disclosed accounting policies in relation to derivatives, grants and provisions in notes 21, 22 and 24 respectively for the first time.

IFRS 16 'Leases'

On 1 January 2019 we adopted IFRS 16. 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' and 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.

1. Basis of preparation and significant accounting policies continued

Transition approach

We have adopted IFRS 16 on the modified retrospective basis, for all Group companies, and as such the comparators within these financial statements have not been restated and continue to be presented under IAS 17. We elected to adopt using the modified retrospective basis as this prevents an opening adjustment to equity and as such maintained our CET1 capital upon transition.

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 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. This differs to the opening lease liability due to adjustments made for amounts accrued in respect of rent-free periods and prepaid rentals as at the point of transition.

Use of estimates

The only estimate made at the point of transition was the discount rate used to measure lease liabilities. Under IFRS 16 future lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our incremental borrowing rate. Due to the interest rate implicit in the lease not being readily determinable for any of our leases at transition, we used our incremental cost of borrowing. Our weighted average discount rate at transition was 5.5% and was determined by reference to the rate we would be able to borrow in the market for similar assets over a similar time period. The table below shows what the impact would have been on the opening lease liability had the discount rate been one per cent higher or lower.

	Decrease in weighted average discount rate to 4.5% £'million	Increase in weighted average discount rate to 6.5% £'million
Lease liability at 1 January 2019	**357**	**303**

Use of judgements

A judgement was made in regard to whether we will exercise any breaks contained within our leases as this has a significant impact on the measurement of the lease liability. The majority of leases are around 25 years in length and a small proportion of these have break clauses part way through. At transition it has been assumed all leases will be retained for their full term, unless there is a specific plan to vacate the site at an early break point, in which case the lease term is deemed to be the period up until that point. This is consistent with the period of time over which leasehold improvements are depreciated.

Practical expedients

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) on an ongoing basis. These leases will continue to be recognised on a straight-line basis over the lease term and in total are immaterial to the Group. As a result, the key leases to which the full requirements of IFRS 16 have been applied are our leases of stores and head office sites. At transition we did not have any leases of 12 months or less (or any longer-term leases in their final year) other than those that had a value of below £5,000. The total value of individually low value lease assets at transition was less than £1 million.

Impact of the financial statements

Due to our relatively young age coupled with our store opening profile over recent years, the vast 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 compared to IAS 17 which requires lease expenses to be recognised on a straight-line basis.

Our net interest margin ('NIM'), which is one of our key performance indicators and alternative performance measures ('APMs'), 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. The interest expense will be recognised within NIM, thus reducing it on an ongoing basis. Further details on NIM and our APMs can be found on pages 177 to 179.

As stated above, since we have applied IFRS 16 on a modified retrospective basis, there is no adjustment to equity upon transition. A new RoU asset and lease liability were included on the balance sheet at 1 January 2019. The addition of the RoU asset has an impact on our regulatory capital, reducing our capital ratios by 50 bps, as this has a 100% risk weighting, compared to no risk weighting when leases were held off balance sheet under IAS 17. Further details can be found in the Financial review on page 17.

Notes to the financial statements
continued

1. Basis of preparation and significant accounting policies continued

The table below reconciles our undiscounted lease commitments as at 31 December 2018 to the opening lease liability and RoU recognised under IFRS 16 on 1 January 2019.

	£'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 included in the statement of financial position at 1 January 2019	**328**
Less amounts previously recognised in respect of prepaid rentals and accrued rent-free periods	(15)
Right-of-use asset included in the statement of financial position at 1 January 2019	**313**

Accounting policy

Our updated accounting policy relating to leases can be found within note 22.

1.6 Future accounting developments

At the year end there are no standards that were in issue but not yet effective, that would have a material impact on the Group, including IFRS 17 'Insurance contracts'. We have not adopted any standards early within these financial statements.

1.7 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, owing to our simple structure. 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.

1.8 Foreign currency translation

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

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

1.9 Critical accounting judgements

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 for us relates to the determination of whether a 'significant increase in credit risk' has occurred.

Significant increase in credit risk

As described in more detail in note 30, IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans as a lifetime ECL is recognised compared to a 12-month ECL for performing 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 30.

1. Basis of preparation and significant accounting policies continued

Recognition of provisions

We recognise provisions when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

A key area of judgement applied in the preparation of these financial statements is determining whether a present obligation exists and where one does, in estimating the probability, timing and amount of any outflows. In determining whether a provision needs to be made and whether it can be reliably estimated, we consult relevant professional experts and reassess our judgements on an ongoing basis as facts change. In the early stages of legal and regulatory matters, it is typically the case that it is not possible to reliably estimate the outcome and in these cases we do not provide for their outcome, however do provide further disclosures outlining the matters in further detail.

Further detail of our provisions, including our accounting policy, can be found in note 24, with additional information about legal and regulatory matters which constitute contingent liabilities available in note 32.

Write-off of intangible assets

During the year we have written off £68 million of intangible assets. These assets were derecognised following a review which was undertaken as a result of our change in future strategy and leadership. The assets primarily consisted of projects that were work in progress that have now been abandoned, as well as older assets that were felt to no longer provide demonstrable future economic benefits.

Judgement has been applied in determining whether assets can continue to provide future economic benefits. The assessment has been made both in reference to both our change in strategy and new long-term plan.

Further detail of our intangible asset write-offs can be found in note 15.

1.10 Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires us to make 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 2019 are appropriate and that these consolidated 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

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.

Multiple forward-looking economic scenarios

As described in note 30, 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 2019, three main scenarios were applied ('Baseline', 'Upside' and 'Downside').

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 2019 are:

- Baseline – 40%
- Upside and Downside – 30% each

Notes to the financial statements
continued

1. Basis of preparation and significant accounting policies continued

The weighted ECL is higher than the Baseline scenario, reflecting the impact of the Downside scenario, 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 30.

The weightings applied to each scenario are considered to represent significant accounting estimates. We have performed an assessment of the impact on the ECL if each of the Baseline, Upside and Downside 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 2019
Weighted	34	–
Baseline	33	(3%)
Upside	30	(13%)
Downside	40	17%

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	2019 £'million	2018 £'million
Cash and balances held with the Bank of England	17.0	11.2
Loans and advances to customers	435.0	365.2
Investment securities held at amortised cost	40.6	57.7
Investment securities held at FVOCI	3.6	10.3
Total interest income	**496.2**	444.4

Interest expense

Group	2019 £'million	2018 £'million
Deposits from customers	112.4	83.7
Deposits from central banks	28.5	22.7
Debt securities	22.1	7.2
Lease liabilities	17.7	–
Repurchase agreements	7.4	0.7
Total interest expense	**188.1**	114.3

3. Net 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.

Expenses that are directly related and incremental to the generation of fee and commission income are presented within fee and commission expense.

As disclosed in note 1, 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	2019 £'million	2018 £'million
Service charges and other fee income	31.4	23.2
Safe deposit box income	13.3	11.1
ATM and interchange fees	22.7	8.2
Fee and commission income	67.4	42.5
Fee and commission expense	(6.4)	(4.9)
Total net fee and commission income	61.0	37.6

4. Net gains on sale of assets

Group and Company	2019 £'million	2018 £'million
Investment securities held at amortised cost	2.4	6.8
Investment securities held at fair value through other comprehensive income	1.7	1.5
Loan portfolios	(2.5)	2.4
Total gains on sale of assets	1.6	10.7

Disposal of investment securities

During the year ended 2019 we sold some financial assets measured at amortised cost; this was primarily to manage liquidity following significant unexpected deposit outflows in the first half of the year. In 2018 we sold a small amount of assets from the amortised cost portfolio as these were no longer eligible under our Treasury policy; additionally, some securities were called by the issuer unexpectedly early resulting in gains on these assets.

Disposal of loan portfolios

In July 2019 we disposed of a mortgage portfolio that we had previously acquired in 2017 for £521 million. The portfolio was primarily retail buy-to-let mortgages and was not considered a strategic portfolio, with its sale having no impact on our customer franchise given it has continually been serviced by an external provider. In 2018 we sold a small portfolio of consumer loans that had previously been acquired. The sale realised a gain of £2.4 million.

These sales are not felt to constitute a change to our business model which is outlined in note 13.

Notes to the financial statements
continued

5. Other income

Accounting policy

Other income is accounted for as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
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.
Grant income	Grant income primarily relates to amounts recognised in relation to the amounts drawn down against the Capability and Innovation Fund award (further details of which can be found in note 23). Income is recognised in line with the delivery of the commitments we agreed to as part of the bid.

Group	2019 £'million	2018 £'million
Foreign currency transactions	25.4	22.5
Rental income	1.2	1.4
Grant income	16.2	–
Other	2.1	1.8
Total other income	44.9	25.7

6. General operating expenses

Group	2019 £'million	2018 £'million
People costs (note 7)	170.9	154.9
Information technology costs	33.8	26.8
Occupancy costs[1]	28.6	48.6
Money transmission and other banking-related costs	27.1	19.6
Transformation costs	11.5	–
Remediation costs	26.8	–
Capability and Innovation Fund costs[2]	16.5	–
Legal, regulatory and professional fees	15.9	9.1
Contractor costs[3]	5.8	4.0
Printing, postage and stationery costs	5.6	4.9
Travel costs	3.9	4.0
Marketings costs	3.5	5.9
Costs relating to the RBS alternative remedies package	1.2	3.8
Other[1]	29.5	24.0
Total general operating expenses	380.6	305.6

1. During the year we have reclassified certain costs, such as cleaning and store security costs, from other operating expenses to be included within occupancy expenses to better reflect the nature of these costs. The 2018 comparator figure has been updated to reflect these changes.
2. Included within Capability and Innovation Fund costs are £0.9 million (2018: nil) of people costs. These are included within Capability and Innovation Fund costs rather than people costs to better reflect their nature.
3. Contractor costs are shown net of both amounts capitalised and amounts included within the transformation costs, remediation costs, Capability and Innovation Fund costs and costs relating to the RBS alternative remedies package application lines.

Included within legal, regulatory and professional fees is £0.2 million (2018: £0.4 million) in respect of the Financial Services Compensation Scheme ('FSCS') levy.

7. 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	2019 £'million	2018 £'million
Wages and salaries	142.2	128.0
Social security costs	14.7	13.7
Pension costs	9.8	8.5
Equity-settled share-based payments[1]	4.2	4.7
Total people costs	170.9	154.9

[1] Included within equity-settled share-based payments is £0.6 million (2018: £0.8 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. These relate to shares held in treasury, rather than share options, and as such do not get recorded in the share option reserve.

During the year £9.5 million (2018: £10.8 million) of people costs were capitalised as part of our intangibles assets (further details can be found in note 15).

The average monthly number of persons employed during the year was 3,681 (2018: 3,552).

Group	2019	2018
Customer-facing	2,125	2,107
Non-customer-facing	1,556	1,445
Total number of persons employed	3,681	3,552

Pension costs

Payments were made amounting to £10.4 million (2018: £9.1 million) to colleagues' individual personal pension plans during the year.

8. Fees payable to the Group's auditors

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

Group	2019 £'000	2018 £'000
For Metro Bank's statutory audit	1,298	968
For the statutory audit of Metro Bank's subsidiaries	60	49
For all other services[1]	1,980	123
Total fees payable to the Group's auditors	3,338	1,140

[1] Other services consists of independent assurance work relating to CASS, country-by-country reporting, regulatory reporting, our debt and equity raises and our interim review.

Notes to the financial statements
continued

9. 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	2019 £'million	2018 £'million
Current tax		
Current tax	3.5	(2.8)
Adjustment in respect of prior years	(0.3)	(0.7)
Total current tax credit/(expense)	3.2	(3.5)
Deferred tax		
Origination and reversal of temporary differences	(52.0)	(9.8)
Effect of changes in tax rates	(2.8)	(0.7)
Adjustment in respect of prior years	(0.2)	0.5
Total deferred tax expense	(55.0)	(10.0)
Total tax expense	(51.8)	(13.5)

9. Taxation continued

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 (losses)/profits had been taxed at the UK corporation tax rate.

A reconciliation between the tax expense and the accounting (loss)/profit multiplied by the UK corporation tax rate is as follows:

Group	2019 £'million	Effective tax rate %	2018 £'million	Effective tax rate %
Accounting (loss)/profit before tax	(130.8)		40.6	
Tax expense at statutory tax rate of 19% (2018: 19%)	24.9	19.0%	(7.7)	19.0%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	(3.0)	(2.3%)	(2.6)	6.4%
Non-deductible expenses – investment property impairment	(1.1)	(0.9%)	(0.5)	1.2%
Non-deductible expenses – remediation	(4.4)	(3.3%)	–	–
Non-deductible expenses – other	(0.7)	(0.5%)	(0.6)	1.4%
Impact of intangible asset impairment on R&D deferred tax liability	1.8	1.4%	–	–
Share-based payments	(1.9)	(1.5%)	(1.3)	3.1%
Adjustment in respect of prior years	(0.5)	(0.3%)	(0.2)	0.5%
Current year losses for which no deferred tax asset has been recognised	(11.4)	(8.7%)	–	–
Derecognition of tax losses arising in prior years	(52.7)	(40.2%)	–	–
Effect of changes in tax rates	(2.8)	(2.2%)	(0.6)	1.5%
Tax expense reported in the consolidated income statement	(51.8)	(39.5%)	(13.5)	33.2%

The effective tax rate for this year is (39.5%) (2018: 33.2%). The main reasons for this, in addition to the reported accounting loss before tax for the year, are set out below:

Impact of intangible asset impairment on R&D deferred tax liability

During the year we impaired £68 million of intangible assets. This relates to the discontinuation of certain work in progress or older IT projects that do not form part of our revised strategy. As some of these assets had previously qualified for R&D tax relief, the R&D deferred tax liability has been adjusted to reflect this.

Share-based payments

During the period our share price fell from £16.94 to £2.02. This had the impact of reducing the deferred tax asset held for share options and contributed £1.9 million to the deferred tax charge.

Derecognition of tax losses carried forward

We derecognised the deferred tax asset arising in prior years due to the expected impact on our forecast short-term results of the investment in cost, revenue and infrastructure transformation. The losses will remain available for offset in the future and recognition will be revaluated at future reporting periods.

Effect of changes in tax rates

This relates to the remeasurement of deferred tax due to rate changes.

Notes to the financial statements
continued

9. Taxation continued

Deferred tax

A deferred tax asset ('DTA') 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 taxable profits from which the future of the underlying timing differences can be deducted. 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
2019						
Deferred tax assets	–	6	–	–	–	6
Deferred tax liabilities	–	(2)	–	(15)	(4)	(21)
Deferred tax assets (net)	–	4	–	(15)	(4)	(15)
At 1 January 2019	53	5	1	(11)	(7)	41
Income statement	(53)	(1)	(1)	(4)	3	(56)
At 31 December 2019	–	4	–	(15)	(4)	(15)

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 1 January 2018	57	4	11	(8)	(6)	58
Income statement	(4)	(1)	(1)	(3)	(1)	(10)
Other comprehensive income	–	2	–	–	–	2
Statement of changes in equity	–	–	(9)	–	–	(9)
At 31 December 2018	53	5	1	(11)	(7)	41

Derecognised deferred tax assets

The value of unused tax losses for which no deferred tax asset has been recognised is £64 million. There is no time limit beyond which the losses expire.

Due to the investment property impairment being unrealised there is an unrecognised DTA of £1.6 million (2018: £0.5 million).

10. Financial instruments

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.

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 within the Risk report on pages 18 to 39.

The financial instruments we hold are simple in nature and we do not consider that we have made any significant or material judgements relating to the classification of financial instruments under IFRS 9.

10. Financial instruments continued

Classification of financial assets

Group	Mandatory fair value through profit and loss £'million	Designated fair value through profit and loss £'million	Fair value through other comprehensive income £'million	Amortised cost £'million	Total £'million
31 December 2019					
Assets					
Loans and advances to customers	–	–	–	14,681	14,681
Investment securities	–	–	411	2,154	2,565
Liabilities					
Deposits from customers	–	–	–	14,477	14,477
Deposits from central bank	–	–	–	3,801	3,801
Debt securities	–	–	–	591	591
Derivative financial liabilities	8	–	–	–	8
Repurchase agreements	–	–	–	250	250
31 December 2018					
Assets					
Loans and advances to customers	–	–	–	14,235	14,235
Investment securities	–	–	674	3,458	4,132
Liabilities					
Deposits from customers	–	–	–	15,661	15,661
Deposits from central bank	–	–	–	3,801	3,801
Debt securities	–	–	–	249	249
Derivative financial liabilities	1	–	–	–	1
Repurchase agreements	–	–	–	344	344

Financial assets pledged as collateral

We have pledged £5,809 million (2018: £5,768 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £941 million (2018: £1,762 million) is made up of high-quality securities and £4,868 million (2018: £4,006 million) is from our own loan portfolio prepositioned with the Bank of England to support some of the Term Funding Scheme ('TFS') drawings.

11. Cash and balances with the Bank of England

Accounting policy	Cash and balances with the Bank of England consists of both cash on hand and demand deposits, both at other banks as well as the Bank of England. In addition, it includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investment securities are only classified as cash if they have a short maturity of three months or less from the date of acquisition and are in substance cash equivalents, e.g. debt investments with fixed redemption dates that are acquired within a short period of their maturity.

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Unrestricted balances with the Bank of England	2,751	2,242	2,751	2,242
Cash and unrestricted balances with other banks	178	230	172	204
Money market placements	60	–	60	–
Total cash and balances with the Bank of England[1]	2,989	2,472	2,983	2,446

[1] Balances held at other financial institutions have been reclassified during the year as cash, rather than as loans and advances to banks, to better reflect the unrestricted nature of these balances.

The expected credit loss held against cash balances held at other banks is less than £0.1 million (31 December 2018: less than £0.1 million).

Notes to the financial statements
continued

12. 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'.

	31 December 2019		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Consumer lending	233	(13)	220
Retail mortgages	10,430	(8)	10,422
Commercial lending (excluding asset and invoice finance)	3,751	(11)	3,740
Total loans and advances to customers (Company)	14,414	(32)	14,382
Asset and invoice finance	301	(2)	299
Total loans and advances to customers (Group)	14,715	(34)	14,681

	31 December 2018		
	Gross carrying amount £'million	ECL allowance £'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

12. Loans and advances to customers continued

Further information on the movements in gross carrying amounts and ECL can be found in note 30. An analysis of the gross loans and advances by product category is set out below:

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Overdrafts	77	70	77	70
Credit cards	11	11	11	11
Term loans	145	207	145	207
Total consumer lending	233	288	233	288
Residential owner occupied	8,493	7,351	8,493	7,351
Retail buy-to-let	1,937	2,274	1,937	2,274
Total retail mortgages	10,430	9,625	10,430	9,625
Total retail lending	10,663	9,913	10,663	9,913
Professional buy-to-let	1,219	1,380	1,219	1,380
Term loans (exc. professional buy-to-let)	2,327	2,448	2,327	2,448
Commercial term loans	3,546	3,828	3,546	3,828
Overdrafts and revolving credit facilities	202	226	202	226
Credit cards	3	3	3	3
Asset and invoice finance	301	299	–	–
Total commercial lending	4,052	4,356	3,751	4,057
Gross loans and advances to customers	14,715	14,269	14,414	13,970
Amounts include:				
Repayable at short notice	228	251	228	251

Notes to the financial statements
continued

13. 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.

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	**Company 31 December 2019 £'million**	Company 31 December 2018 £'million
Fair value through other comprehensive income ('FVOCI')	411	674	411	674
Amortised cost	2,154	3,458	2,154	3,458
Total investment securities	**2,565**	4,132	**2,565**	4,132

Fair value through other comprehensive income

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	**Company 31 December 2019 £'million**	Company 31 December 2018 £'million
Sovereign bonds	283	351	283	351
Residential mortgage-backed securities	–	64	–	64
Covered bonds	128	104	128	104
Corporate bonds	–	155	–	155
Total investment securities held at FVOCI	**411**	674	**411**	674

Amortised cost

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	**Company 31 December 2019 £'million**	Company 31 December 2018 £'million
Sovereign bonds	61	58	61	58
Residential mortgage-backed securities	1,752	2,997	1,752	2,997
Covered bonds	341	403	341	403
Total investment securities held at amortised cost	**2,154**	3,458	**2,154**	3,458

14. Property, plant and equipment

Accounting policy

Property, plant and equipment

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, 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 at least annually for indicators of impairment.

Right-of-use assets

Upon the recognition of a lease liability (see note 22 for further details) a corresponding right-of-use ('RoU') asset is recognised. This is adjusted for any initial direct costs incurred, lease incentives paid or received and any restoration costs at the end of the lease (where applicable).

The RoU asset is depreciated on a straight-line basis over the life of the lease.

All right-of-use assets are reviewed at least annually for indicators of 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.

Group	Investment property £'million	Leasehold improve-ments £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
31 December 2018	10	275	199	33	39	n/a	556
IFRS 16 transition adjustment	–	–	–	–	–	313	313
1 January 2019	10	275	199	33	39	313	869
Additions	–	51	62	5	2	26	146
Disposals	–	–	–	–	–	(7)	(7)
Write-offs	–	(3)	–	(12)	(31)	–	(46)
Transfers	8	(9)	1	–	–	–	–
31 December 2019	18	314	262	26	10	332	962
Accumulated depreciation							
31 December 2018	3	39	9	18	33	n/a	102
IFRS 16 transition adjustment	–	–	–	–	–	–	–
1 January 2019	3	39	9	18	33	–	102
Depreciation charge for the year	–	11	4	6	3	16	40
Impairments	7	–	–	–	–	–	7
Disposals	–	–	–	–	–	–	–
Write-offs	–	–	–	(12)	(31)	–	(43)
Transfers	–	(1)	1	–	–	–	–
31 December 2019	10	49	14	12	5	16	106
Net book value	8	265	248	14	5	316	856

Notes to the financial statements
continued

14. Property, plant and equipment continued

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 2019 our investment property had a fair value of £7 million (31 December 2018: £7 million). The fair value has been provided by a qualified independent valuer.

Group	Investment property £'million	Leasehold improve-ments £'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
Depreciation 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

Write-offs

Write-offs in the year consisted of pipeline sites which were abandoned as part of the change in our strategy as these sites were no longer felt to be in suitable locations or formats. In addition, it included a number of fixtures, fittings and equipment and IT hardware with a nil book value which are no longer being used.

Transfers

Transfers represent costs associated with the improvements made to previously leased stores which have been purchased. These stores were purchased where there was a strong commercial rationale for doing so. Following the introduction of IFRS 16, the capital impact of such purchases is considerably less than previously under IAS 17 and gaining ownership provides greater flexibility over the site in the future.

Additionally, during the year an acquired freehold site was transferred from freehold land and buildings to investment property. The site was originally acquired with the intent of converting into a store, however the change in our strategy has meant this course of action is no longer felt suitable. Given there is no intention in the short to medium term to convert this site into a store, the decision was made to continue letting the property, and the property is considered an investment property.

Relevant disclosures for the Company have not been included as they are not materially different to the Group disclosures.

15. 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 assessment, 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 colleague, contractor 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]	up to 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 was upgraded during the year and 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.

Group	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2019	4	1	249	254
Additions	–	–	79	79
Write-offs	–	(1)	(100)	(101)
Deferred grant (see note 23)	–	–	(4)	(4)
31 December 2019	4	–	224	228
Amortisation				
1 January 2019	–	1	56	57
Amortisation charge for the year	–	–	36	36
Write-offs	–	(1)	(32)	(33)
31 December 2019	–	–	60	60
Net book value	4	–	164	168

Notes to the financial statements
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15. Intangible assets continued

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
Amortisation charge for the year	–	–	25	25
31 December 2018	–	1	56	57
Net book value	4	–	193	197

Write-offs

The write-offs in the year consisted primarily of software and applications that were either in use or work in progress that have been abandoned owing to the change in our strategy.

Goodwill

Goodwill is assessed for any impairment on an annual basis. All of the £4 million (31 December 2018: £4 million) goodwill has been allocated to the Group's asset and invoice finance business. This business was previously acquired and is considered a standalone cash-generating unit. The recoverable amount of the cash-generating unit, determined using the value-in-use basis, was found to be in excess of its carrying amount and, as such, no impairment to goodwill was required.

The following assumptions were used in the assessment:

Assumption	How it has been determined
Projected adjusted profitability	The cash flows are based on our most recent Board-approved long-term plan adjusted for non-cash items. Our long-term plan is based on our best estimate of lending yields, volume growth and cost base over the period.
Projected capital expenditure	The projected capital expenditure (excluding replacement of assets) has been determined on a consistent basis to that used for the long-term plan, which has been calculated based on the spend needed for growth within the limits of what can be afforded.
Funding and capital	The CGU receives all its funding from Metro Bank and an assumption is made whether we will be able to remain appropriately capitalised to fund our anticipated growth. We have determined that we will be able meet the appropriate regulatory requirements, which has been based on an analysis of both our existing and planned capital structure.
Discount rate	As the CGU receives all its funding directly from Metro Bank, the discount rate has been set at the pre-tax weighted average cost of capital for the Group adjusted to reflect the specific risks relating to the business. This discount rate has been compared to industry peers to ensure it is appropriate. The discount rate used is 10.9%.
Long-term growth rate	The long-term growth rate is used to extrapolate the cash flows in perpetuity. We have used the predicted long-term GDP growth rate of the UK economy (the only market the CGU operates in) of 2.0%.

15. Intangible assets continued

Company	2019 Software £'million	2018 Software £'million
Cost		
1 January	**246**	171
Additions	**79**	75
Write-offs	**(100)**	–
Deferred grant (see note 23)	**(4)**	–
31 December	**221**	246
Amortisation		
1 January	**56**	30
Impairments	**–**	1
Amortisation charge for the year	**35**	25
Write-offs	**(32)**	–
31 December	**59**	56
Net book value	**162**	190

16. Prepayments and accrued income

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Prepayments	**29**	32	**26**	29
Accrued income	**34**	31	**34**	31
VAT receivable	**3**	3	**3**	3
Total prepayments and accrued income	**66**	66	**63**	63
Current portion	**66**	66	**63**	63
Non-current portion	**–**	–	**–**	–

17. Other assets

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Assets pledged as collateral	**43**	14	**43**	14
Other[1]	**32**	36	**31**	36
Amounts owed by Group undertakings	**–**	–	**291**	305
Total other assets	**75**	50	**365**	355
Current portion	**48**	39	**338**	344
Non-current portion	**27**	11	**27**	11

[1] Other balance primarily comprises customer transactions in process or items in the course of collection over year end.

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18. Deposits from customers

The total deposits from customers as at 31 December 2019 is comprised of 60% from retail customers (31 December 2018: 47%) and 40% from commercial customers (31 December 2018: 53%).

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	**Company 31 December 2019 £'million**	Company 31 December 2018 £'million
Deposits from retail customers	**8,730**	7,429	**8,730**	7,429
Deposits from commercial customers	**5,747**	8,232	**5,747**	8,232
Total deposits from customers	**14,477**	15,661	**14,477**	15,661

19. Deposits from central banks

Deposits from central banks consists solely of amounts drawn down under the Bank of England's Term Funding Scheme ('TFS')

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	**Company 31 December 2019 £'million**	Company 31 December 2018 £'million
Amounts drawn down under Term Funding Scheme	**3,801**	3,801	**3,801**	3,801
Deposits from central banks	**3,801**	3,801	**3,801**	3,801

The TFS was closed to further drawdowns in February 2018. Our drawdowns will mature in 2020, 2021 and 2022 in the amounts of £543 million, £2,778 million and £480 million respectively.

20. 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.

In October 2019 we issued £350 million of senior non-preferred notes in order to be able to meet our interim MREL requirements.

Name	Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
Fixed Rate Reset Callable Subordinated Notes	26/06/18	GBP	250	5.50%	26/06/2023	26/06/2028
Fixed Rate Reset Senior Non-Preferred Notes	08/10/19	GBP	350	9.50%	08/10/2024	08/10/2025

	Group 2019 £'million	Group 2018 £'million	**Company 2019 £'million**	Company 2018 £'million
1 January	**249**	–	**249**	–
Issuances	**350**	250	**350**	250
Costs associated with issuance	**(9)**	(1)	**(9)**	(1)
Accrued interest payable	**1**	–	**1**	–
31 December	**591**	249	**591**	249

21. Derivatives

Accounting policy

In accordance with our risk management strategy, to the extent not naturally hedged, we use interest rate swaps to manage our exposure to interest rate risk. On adoption of IFRS 9 we chose to continue applying the hedge accounting rules set out in IAS 39 as adopted by the EU (EU-IFRS) as we employ dynamic portfolio hedge accounting of interest rate risk across fixed rate financial assets and fixed rate financial liabilities. Relevant differences between IFRS as issued by the IASB and EU-IFRS specifically relate to our dynamic hedges of non-interest bearing liabilities and fixed rate mortgages.

Where we are using interest rate swaps to hedge the changes in fair value attributable to the interest rate risk of a recognised asset or liability that could affect profit or loss, we apply fair value hedge accounting. If there is an effective hedge relationship, the hedged item (such as fixed rate mortgages or non-interest bearing customer deposits) is adjusted for fair value changes in respect of the hedged risk. These fair value changes are recognised in the income statement together with the fair value movements on the hedging instrument (the interest rate swaps).

Where we are using interest rate swaps to hedge the exposure to variability in cash flows attributable to interest rate risk on a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, we apply cash flow hedge accounting. If there is an effective hedge relationship, the effective portion of the movement in fair value of the hedging instrument (the interest rate swap) is recognised in other comprehensive income ('OCI') and taken to the cash flow hedge reserve. The financial hedged item (such as floating rate loans and advances to customers) is accounted for as normal in line with IFRS 9 accounting requirements.

Hedge accounting is discontinued when a hedge ceases to be highly effective, a derivative expires or is sold, the underlying hedged item matures or is repaid, or periodically if a new underlying hedged item or hedging instrument is added to the hedge relationship. Where a fair value hedge is de-designated (either due to becoming ineffective or as part of our dynamic approach to hedge accounting) any hedge adjustments accrued to that point are amortised over the remaining life of the hedged item. When a cash flow hedge is de-designated any accumulated amounts in the cash flow hedge reserve are recycled to profit or loss as and when the hedged forecast cash flows impact the income statement.

At the inception of every hedge, we produce hedge documentation which identifies the hedged risk, hedged item and hedging instrument. This documentation sets out the methodology used for testing hedge effectiveness.

We use derivatives as part of our approach to hedging interest rate and foreign exchange exposure.

Our derivative financial instruments are analysed in the table below.

	31 December 2019				31 December 2018			
	Assets		Liabilities		Assets		Liabilities	
Group and Company	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million
Interest rate swaps/Designated as hedging instruments	–	–	8	1,712	–	50	–	322
Foreign currency swaps/Designated as held at fair value through profit and loss	1	138	1	136	–	102	1	106
Total	1	138	9	1,848	–	152	1	428

Hedge accounting

Our hedging strategy is divided into micro hedges, where the hedged item is an identifiable asset or liability, and portfolio hedges, where the hedged item is a portfolio of mortgage assets.

The hedge accounting relationships, which we designate risk components of hedged items are as follows:

- Benchmark interest rate risk as a component of interest rate risk
- Exchange rate risk for foreign currency financial assets and financial liabilities

Other risks such as credit risk and liquidity risk are managed separately and are not included in the hedge accounting relationship.

The changes in the designated risk component usually account for the largest portion of the overall change in fair value of the hedged item.

Notes to the financial statements
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21. Derivatives continued

Portfolio fair value hedges

During 2019 we implemented a macro hedging programme, as part of which we increased our use of interest rate swaps to manage our interest rate risk. So far the macro hedging programme has been applied to our fixed rate mortgage assets only.

We determine hedged items by analysing portfolios of fixed rate mortgages into repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated appropriately to those repricing time buckets.

The hedge relationship is tested for effectiveness prospectively at the designation date, and retrospectively at each de-designation on a monthly basis. This is done by comparing fair value movements of the designated proportion of the bucketed mortgages, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes in the hedged mortgages are recognised on the balance sheet as an asset and liability respectively. At the end of every month, we de-designate the hedge relationships and redesignate them as new hedges in order to minimise the ineffectiveness from early repayments and accommodate new exposures. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the remaining period until the repricing of the mortgage. Amortisation begins at the date of de-designation.

Micro fair value hedges

We use this hedging strategy on fixed rate assets and liabilities held at fair value through other comprehensive income and amortised cost as well as on our fixed rate debt issuance.

Hedge ineffectiveness

Hedge ineffectiveness within portfolio fair value hedges of the fixed rate mortgage portfolio can occur due to a number of potential sources, such as:

- non-zero derivative designated in a hedge relationship;
- mismatches between contractual terms such as basis, timing, principal and notionals; or
- change in credit risk of interest rate swaps.

Summary of hedging instruments in designated hedge relationships

The amounts relating to items designated as hedging instruments in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2019				31 December 2018			
	Asset		Liability		Asset		Liability	
Group and Company	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million
Interest rate swaps	–	–	1,712	8	50	–	322	–
Total derivatives designated as fair value hedges	–	–	1,712	8	50	–	322	–

Summary of hedged items in designated hedge relationships

The amounts relating to items designated as hedged items in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2019				31 December 2018			
	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item	
Group and Company	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million
Interest rate risk								
Fixed rate mortgages[1]	994	–	4	–	–	–	–	–
Fixed rate debt issuance[2]	–	350	–	–	–	–	–	–
Fixed rate investment securities[3]	372	–	4	–	370	–	–	–
Fixed rate loans[4]	7	–	–	–	7	–	–	–
Total derivatives designated as fair value hedges	1,373	350	8	–	377	–	–	–

1. Hedged item and the cumulative fair value changes are recorded in Loans and advances to customers
2. Hedged item and the cumulative fair value changes are recorded in Debt securities in issue
3. Hedged item and the cumulative fair value changes are recorded in the Other reserves
4. Hedged item and the cumulative fair value changes are recorded in Loans and advances to customers

21. Derivatives continued

For the purposes of calculating ineffectiveness recognised in the profit or loss, the total accumulated amount of fair value hedge adjustment is used.

Summary of ineffectiveness from designated hedge relationships

An analysis of the hedge ineffectiveness recognised in profit or loss for the designated fair value hedge relationships is set out below:

Group and Company	2019 £'million	2018 £'million
(Loss)/gain arising from fair value hedges		
Hedging instrument	(7.2)	(0.5)
Hedged item attributable to the hedged risk	7.6	0.6
Total ineffectiveness arising from fair value hedges	0.4	0.1

22. Leases

Accounting policy

Policy applicable from 1 January 2019

At the inception of a contract we assess whether the contract contains a lease.

At the commencement of a lease we recognise a lease liability and right-of-use asset (see note 14 for further details). The lease liability is initially measured as the present value for the future lease payments discounted at the rate implicit in the lease (where available) or our incremental cost of borrowing. Generally we use our deemed incremental cost of borrowing as the discount rate. Following initial recognition, the lease liability is measured using the effective interest method.

Where we are certain to exercise a break in the lease, only the lease payments up until the date of the break are included.

We subsequently re-measure the lease liability when there is a change to an index or rate used or when there is a change in expectation that we will exercise a purchase option or break clause or if we extend the lease. When such an adjustment is made to the lease liability a corresponding adjustment is made to the right-of-use asset.

Irrecoverable VAT on lease payments is excluded from the lease liability and is taken to the income statement over the period which is due. This is included within note 6, General operating expenses, under 'occupancy expense'.

We have elected not to recognise a lease liability and right-of-use assets for any leases that have a term of less than 12 months, or are for an asset which is deemed to be of low value (item is worth less than £5,000). For these leases, the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of the lease.

As outlined in note 1, on 1 January 2019 we implemented IFRS 16 'Leases'. We elected to adopt IFRS 16 under the modified retrospective approach and as such no comparatives are shown for the tables below, as all of the leases we have are operating leases and were held off-balance sheet under IAS 17.

Lease liabilities

	Group 2019 £'million	Company 2019 £'million
31 December 2018	–	–
Transition adjustment	328	328
1 January 2019	328	328
Additions and modifications	23	23
Disposals	(3)	(3)
Lease payments made	(25)	(25)
Interest on lease liabilities	18	18
31 December 2019	341	341
Current	28	28
Non-current	313	313

Notes to the financial statements
continued

22. Leases continued

Discount rate

The average discount rate as at 31 December 2019 was 5.7%. The increase in the discount rate from 5.5% at the point of transition reflects our increased incremental cost of borrowing during the year. The discount rate is not retrospectively adjusted for older leases.

Right-of-use assets

All of our disclosures relating to right-of-use assets, including our accounting policy, can be found in note 14.

Lease commitments

At the balance sheet date, future minimum lease payments, inclusive of irrecoverable VAT at 20% (31 December 2018: 20%), were as follows:

Due	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Within one year	34	30	34	30
Due in one to five years	142	133	142	133
Due in more than five years	516	495	516	495
Total	692	659	692	659

Low value and short leases

During the year ended 31 December 2019, £0.4 million was recognised in the income statement with respect to assets of low value of a lease less 12 months.

Future income due under non-cancellable property 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.

Receivable	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Within one year	1	1	1	1
Due in one to five years	3	4	3	4
Due in more than five years	7	9	7	9
Total	11	14	11	14

Finance lease receivables

Through our asset finance business we lease a variety of assets to third parties, which typically consist of plant, machinery and vehicles. These rentals typically cover the assets' useful economic life and as such any residual value is minimal. Amounts receivable are classified as loans and advances to customers and are categorised within our asset and invoice finance lending per the breakdown provided in note 12.

	Group					
	31 December 2019			31 December 2018		
Receivable	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million
Within one year	7	(1)	6	6	(1)	5
Due in one to five years	13	(1)	12	13	(1)	12
Due in more than five years	1	–	1	2	–	2
Total	21	(2)	19	21	(2)	19

23. Deferred grants

Accounting policy	Grants are recognised where there is reasonable assurance that we will both receive the grant and will be able to comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the purchase of an asset, it is recognised directly against the cost of the asset.

	Group 2019 £'million	Group 2018 £'million	Company 2019 £'million	Company 2018 £'million
1 January	–	–	–	–
Grants received	120	–	120	–
Released to the income statement (see note 5)	(16)	–	(16)	–
Offset against capital expenditure (see note 15)	(4)	–	(4)	–
Element of grant awaiting repayment	(50)	–	(50)	–
31 December	50	–	50	–

On 22 February 2019 we were awarded £120 million from the Capability and Innovation Fund (part of the RBS alternative remedies package).

Following changes to our strategy, a revised business case was submitted to the BCR (the awarding body). The proposals put forward were accepted by BCR on 25 February 2020 as part of which the public commitments attached to the grant were amended. The commitments relate to the delivery of certain digital initiatives as well as opening at least 15 stores in the north of England. Full details of the commitment can be found on BCR's website. As part of this, it was agreed that £50 million of the grant would be returned to BCR. As disclosed in note 33, the acceptance of our proposal by BCR post year end is considered an adjusting event and, as such, the £50 million to be repaid is classified as a liability as at 31 December 2019. All of the sums recognised to date, either in the income statement or offset against capital expenditure, are still components of the revised commitments and, as such, no adjustments to these amounts have been made.

24. Provisions

Accounting policy

We recognise provisions when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made. The provision is measured at its current present value, where the time value of money is felt to be material.

Provision	Description
Customer remediation	We are committed to doing the right thing but occasionally we identify issues that have caused detriment as a result of our actions. Where we have to refund costs to customers we provide for this at the point the obligation arises. The amounts recognised includes any associated interest due.
Dilapidations	Dilapidations provisions are recognised in regard to certain properties we lease. The majority of our stores and offices have an automatic right to renewal at the end of the lease under the provisions of the Landlord and Tenant Act 1954 ('the act'). Where this is the case we do not provide for restorations on these sites since we have no intention of vacating at the end of the lease term. For sites that are outside the act, or sites within the act where we think there is a chance we will vacate a site at the end of its lease, a provision is made for dilapidations. The provision is made in line with the underlying obligations contained within the lease.
Other provisions	Other provisions consist of other sundry amounts that are provided for in the ordinary course of our business.

No provision has been recognised in relation to any of the legal and regulatory matters set out in note 32.

Notes to the financial statements
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24. Provisions continued

Group and Company	2019 Customer remediation £'million	Dilapidations £'million	Other provisions £'million	Total £'million	2018 Customer remediation £'million	Dilapidations £'million	Other provisions £'million	Total £'million
1 January	–	–	2	2	–	–	2	2
Additions	12	3	–	15	–	–	–	–
Utilised	–	–	–	–	–	–	–	–
31 December	12	3	2	17	–	–	2	2

All additions have been recognised in the income statement with the exception of the provisions in respect of dilapidations. These have been recognised as part of the right-of-use asset and will be depreciated over the lease term.

Customer remediation

The amount provided relates to non-compliance with requirements to provide SMS warning alerts to customers regarding overdraft charges. We identified that SMS warning overdraft alerts to customers did not contain all the information that should have been included, and on certain occasions some customers did not receive these alerts before 10am, as required. The error was subsequently corrected, and the CMA was informed. Affected customers will be contacted in the first half of 2020 to put things right.

The provision has been calculated based on the fees originally incorrectly charged. It also includes any interest due from the date the amount was charged through to the estimated date of return. The remediation will be actioned in the first half of 2020.

Dilapidations

The amounts provided in respect of dilapidations are calculated based on assessments by an independent qualified valuer. They represent the best estimate of the present value to restore the site to the condition required under the lease. As the date restoration is required may be up to 25 years in the future, there is uncertainty in this estimation. Additionally, for sites that are outside the act, should we be successful in reviewing the lease at the end of its term, the provision recognised may not end up being utilised.

25. Other liabilities

	Group 31 December 2019 £'million	Group 31 December 2018 £'million	Company 31 December 2019 £'million	Company 31 December 2018 £'million
Trade creditors	4	5	4	5
Other taxation and social security costs	6	6	5	6
Accruals	93	97	92	96
Deferred income	10	18	10	18
Grant awaiting repayment (note 23)	50	–	50	–
Other liabilities	104	60	101	54
Total other liabilities	267	186	262	179
Current portion	236	158	231	152
Non-current portion	31	28	31	27

26. 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 2019, we had 172.4 million ordinary shares of 0.0001p (31 December 2018: 97.4 million) authorised and in issue.

In June 2019 we issued 75 million ordinary shares for consideration of £375 million. Associated costs of £16 million have been offset against the amount raised.

Called-up ordinary share capital, issued and fully paid

The called-up share capital reserve is used to record our nominal share capital. At 31 December 2019 our called-up share capital was £172.42 (31 December 2018: £97.40).

	Group 2019 £'million	Group 2018 £'million	Company 2019 £'million	Company 2018 £'million
1 January	–	–	–	–
Issued	–	–	–	–
31 December	–	–	–	–

26. Called-up share capital continued

Share premium

The share premium reserve is used to record the excess consideration of any shares we have issued over the nominal share value.

	Group 2019 £'million	Group 2018 £'million	Company 2019 £'million	Company 2018 £'million
1 January	1,605	1,304	1,605	1,304
Issued	375	304	375	304
Costs of shares issued	(16)	(3)	(16)	(3)
31 December	1,964	1,605	1,964	1,605

27. Retained earnings

Retained earnings records our cumulative losses since our formation. The Group's retained earnings also include the accumulated profits of our subsidiaries since they were acquired.

	Group 2019 £'million	Group 2018 £'million	Company 2019 £'million	Company 2018 £'million
1 January	(209)	(236)	(214)	(241)
(Loss)/profit for the year	(183)	27	(183)	27
31 December	(392)	(209)	(397)	(214)

No dividends were paid during the year (2018: none). We do not currently have any distributable reserves and, as such, it is unlikely a dividend will be paid in the foreseeable future.

28. Other reserves

Share option reserve

The share option reserve is used to record movements in relation to share options awarded under our CSOP plans.

	Group 2019 £'million	Group 2018 £'million	Company 2019 £'million	Company 2018 £'million
1 January	10	16	10	16
Equity-settled share-based payment charges (note 7)	4	4	4	4
Deferred tax movements (note 9)	–	(9)	–	(9)
Employer's national insurance arising on exercise of options	–	(1)	–	(1)
31 December	14	10	14	10

Fair value though other comprehensive income ('FVOCI') reserves

The FVOCI reserve is used to record changes in the fair value of investment securities designated at FVOCI. When investment securities held at FVOCI are sold, any accumulated gains or losses are transferred to the income statement.

	Group 2019 £'million	Group 2018 £'million	Company 2019 £'million	Company 2018 £'million
1 January	(3)	1	(3)	1
Changes in fair value	2	(2)	2	(2)
Deferred tax movements (note 9)	–	2	–	2
Fair value changes transferred to the income statement on disposal	(2)	(4)	(2)	(4)
31 December	(3)	(3)	(3)	(3)

Treasury shares

We have a small number of shares held in treasury relating to awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange (see note 7 for further details). These are held by an employee benefit trust, which is consolidated within the Group accounts. The balance on the reserve is less than £0.2 million (31 December 2018: £0.4 million) and therefore not been separately disclosed as a component of reserves due to its immaterial size.

Notes to the financial statements
continued

29. 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 under our deferred variable reward plan. The granting of options is designed to provide incentives to all colleagues to deliver long-term returns. No individual has a contractual right to participate in the plan or to receive any guaranteed benefits and the granting of options remains at the discretion of the Remuneration Committee.

Standard share options are granted for no consideration and carry no voting rights. 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:

	2019		2018	
Group	Number of options '000	Weighted average exercise price £	Number of options '000	Weighted average exercise price £
Outstanding at 1 January	**4,104**	**22.90**	3,377	18.98
Granted	**922**	**7.94**	1,001	35.36
Exercised	**(3)**	**12.56**	(144)	16.14
Lapsed	**(263)**	**23.42**	(131)	25.05
Outstanding at 31 December	**4,760**	**19.98**	4,104	22.90
Exercisable at 31 December	**2,921**	**19.75**	2,287	18.22

Fair value of options granted

The average share price during 2019 was 631p (2018: 3,075p). The number of options outstanding at year end was as follows:

	2019		2018	
Exercise price	Number of options '000	Weighted average remaining contractual life years	Number of options '000	Weighted average remaining contractual life years
£7.94	**856**	**9.2**	–	–
£9.00	**47**	**1.8**	47	2.8
£10.00	**128**	**2.8**	129	3.8
£12.00	**235**	**3.8**	236	4.9
£13.00	**60**	**4.2**	60	5.2
£13.50	**615**	**4.8**	621	5.8
£14.00	**194**	**n/a**	194	n/a
£16.00	**624**	**n/a**	647	n/a
£20.00	**451**	**6.2**	498	7.2
£32.73	**668**	**7.2**	708	8.2
£35.36	**882**	**8.2**	963	9.2
Total	**4,760**	**6.9**	4,104	7.4

29. 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 2019 was £1.7 million (2018: £4.3 million), based on the following assumptions:

Group	2019 cash bonus exchange	2019 share options
Weighted average risk-free interest rate	0.80%	0.76%
Weighted average expected life	4 years	3.5 years
Weighted average expected volatility	50%	50%
Weighted average expected dividend yield	nil	nil
Weighted average share price	£7.94	£7.94
Weighted average exercise price	£7.94	£7.94

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 blended 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 and our own share price. This is on the basis of our own share price having only been listed since March 2016.

30. Expected credit losses

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
- Macroeconomic 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 macroeconomic scenarios.

Notes to the financial statements
continued

30. Expected credit losses continued

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 macroeconomic 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 macroeconomic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired **('POCI')** assets	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 recognised as a loss allowance.

30. Expected credit losses 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 three 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 realisation 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 (i.e. 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

Notes to the financial statements
continued

30. Expected credit losses continued

Loss given default

The loss given default ('LGD') represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates – one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral on secured portfolios – a key driver of the expected recovery in the event of default
- Expected haircut applied to the collateral value to reflect a forced sale discount
- Price index forecasts applied to project collateral values into the future
- Stress factors based on macroeconomic 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.

Macroeconomic 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 HPI changes, year on year
- UK GDP changes, year on year

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index mortgage 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 our data.

30. Expected credit losses continued

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 non-linearities.

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.

The weightings applied to each scenario at 31 December 2019 are:

- Baseline – 40%
- Upside and Downside – 30% each

This weighting scheme is deemed as being appropriate for the computation of unbiased ECL.

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2019 are as follows:

	2020	2021	2022	2023
Interest rates (%)	Base: 1.0% Upside: 1.0% Downside: 0.0%	Base: 1.8% Upside: 2.0% Downside: 0.7%	Base: 2.3% Upside: 2.6% Downside: 1.1%	Base: 2.9% Upside: 3.3% Downside: 1.6%
UK unemployment (%)	Base: 4.2% Upside: 3.3% Downside: 5.6%	Base: 4.4% Upside: 3.0% Downside: 6.7%	Base: 4.6% Upside: 3.3% Downside: 7.0%	Base: 4.8% Upside: 3.6% Downside: 6.8%
UK house price index – % change year-on-year	Base: 1.4% Upside: 5.8% Downside: (4.0)%	Base: 0.6% Upside: 5.9% Downside: (8.1)%	Base: 1.1% Upside: 2.2% Downside: (1.6)%	Base: 1.1% Upside: 0.1% Downside: 2.7%
UK GDP – % change	Base: 1.0% Upside: 4.5% Downside: (3.9)%	Base: 1.0% Upside: 0.7% Downside: 0.4%	Base: 1.1% Upside: 0.7% Downside: 2.0%	Base: 1.5% Upside: 1.3% Downside: 2.4%

Notes to the financial statements
continued

30. Expected credit losses continued

The assumptions used for the ECL estimate as at 1 January 2019 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	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%

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 macroeconomic 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. These impairment provisions are not material.

30. Expected credit losses continued

Expected credit loss expense

Group	2019 £'million	2018 £'million
Retail mortgages	(3)	1
Consumer lending	4	(8)
Commercial lending (excluding asset and invoice finance)	–	6
Asset and invoice finance	(1)	(1)
Expected credit losses included within gains on sale of assets	8	10
Write-offs and other movements	4	–
Total expected credit loss expense	**12**	**8**

Investment securities

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 2019, the loss allowance included within the FVOCI reserve is £0.2 million (31 December 2018: £0.3 million).

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 2019 is £0.2 million (31 December 2018: £0.2 million).

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

	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 2019	9,245	336	39	5	9,625	–	(5)	(4)	(2)	(11)	9,245	331	35	3	9,614
Transfers to/(from) Stage 1[1]	169	(162)	(7)	–	–	(1)	1	–	–	–	168	(161)	(7)	–	–
Transfers to/(from) Stage 2	(369)	370	(1)	–	–	–	–	–	–	–	(369)	370	(1)	–	–
Transfers to/(from) Stage 3	(22)	(16)	38	–	–	–	–	–	–	–	(22)	(16)	38	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	1	(1)	(2)	–	(2)	1	(1)	(2)	–	(2)
New lending[3]	2,122	77	–	–	2,199	–	–	–	–	–	2,122	77	–	–	2,199
Repayments, additional drawdowns and interest accrued	(244)	(9)	(3)	–	(256)	–	–	–	–	–	(244)	(9)	(3)	–	(256)
Derecognitions[4]	(1,027)	(94)	(12)	(5)	(1,138)	–	2	2	2	6	(1,027)	(92)	(10)	(3)	(1,132)
Changes to model assumptions[5]	–	–	–	–	–	–	–	(1)	–	(1)	–	–	(1)	–	(1)
31 December 2019	9,874	502	54	–	10,430	–	(3)	(5)	–	(8)	9,874	499	49	–	10,422

1. Represents stage transfers prior to any ECL remeasurements.
2. Represents the remeasurement between the 12-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 customer's risk profile.

Notes to the financial statements
continued

30. Expected credit losses continued

	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	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	–	–	–	–	–	1	(2)	(1)	–	(2)	1	(2)	(1)	–	(2)
New lending	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	(424)	(26)	(10)	–	(460)	1	–	1	–	2	(423)	(26)	(9)	–	(458)
Changes to model assumptions	–	–	–	–	–	–	–	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

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 2019	275	8	5	–	288	(3)	(3)	(3)	–	(9)	272	5	2	–	279
Transfers to/(from) Stage 1	5	(5)	–	–	–	–	–	–	–	–	5	(5)	–	–	–
Transfers to/(from) Stage 2	(1)	1	–	–	–	–	–	–	–	–	(1)	1	–	–	–
Transfers to/(from) Stage 3	(3)	(3)	6	–	–	–	2	(2)	–	–	(3)	(1)	4	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	–	(4)	–	(4)	–	–	(4)	–	(4)
New lending	39	–	–	–	39	–	–	–	–	–	39	–	–	–	39
Repayments, additional drawdowns and interest accrued	(37)	–	(1)	–	(38)	–	–	–	–	–	(37)	–	(1)	–	(38)
Derecognitions	(55)	(1)	–	–	(56)	–	–	–	–	–	(55)	(1)	–	–	(56)
Changes to model assumptions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
31 December 2019	223	–	10	–	233	(3)	(1)	(9)	–	(13)	220	(1)	1	–	220

30. Expected credit losses continued

	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

Commercial lending (excluding asset and invoice finance)

Our top 10 commercial exposures total £360 million (2018: £347 million), representing 10% (2018: 9%) 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 2019	3,970	77	10	–	4,057	(4)	(3)	(3)	–	(10)	3,966	74	7	–	4,047
Transfers to/(from) Stage 1	43	(43)	–	–	–	(1)	1	–	–	–	42	(42)	–	–	–
Transfers to/(from) Stage 2	(64)	64	–	–	–	–	–	–	–	–	(64)	64	–	–	–
Transfers to/(from) Stage 3	(15)	(9)	24	–	–	–	1	(1)	–	–	(15)	(8)	23	–	–
Net remeasurement due to transfers	–	–	–	–	–	1	(1)	(2)	–	(2)	1	(1)	(2)	–	(2)
New lending	397	2	14	–	413	(1)	–	(2)	–	(3)	396	2	12	–	410
Repayments, additional drawdowns and interest accrued	(143)	(3)	9	–	(137)	–	–	–	–	–	(143)	(3)	9	–	(137)
Derecognitions	(560)	(16)	(6)	–	(582)	–	–	2	–	2	(560)	(16)	(4)	–	(580)
Changes to model assumptions	–	–	–	–	–	1	1	–	–	2	1	1	–	–	2
31 December 2019	3,628	72	51	–	3,751	(4)	(1)	(6)	–	(11)	3,624	71	45	–	3,740

Notes to the financial statements
continued

30. Expected credit losses continued

	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 2019	295	–	4	–	299	(2)	–	(2)	–	(4)	293	–	2	–	295
Transfers to/(from) Stage 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) Stage 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) Stage 3	(2)	–	2	–	–	–	–	–	–	–	(2)	–	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
New lending	116	–	1	–	117	–	–	–	–	–	116	–	1	–	117
Repayments, additional drawdowns and interest accrued	(60)	–	(3)	–	(63)	–	–	–	–	–	(60)	–	(3)	–	(63)
Derecognitions	(48)	–	(4)	–	(52)	–	–	1	–	1	(48)	–	(3)	–	(51)
Changes to model assumptions	–	–	–	–	–	–	–	1	–	1	–	–	1	–	1
31 December 2019	301	–	–	–	301	(2)	–	–	–	(2)	299	–	–	–	299

30. Expected credit losses continued

	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

Total

	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 2019	13,785	421	58	5	14,269	(9)	(11)	(12)	(2)	(34)	13,776	410	46	3	14,235
Transfers to/(from) Stage 1	217	(210)	(7)	–	–	(2)	2	–	–	–	215	(208)	(7)	–	–
Transfers to/(from) Stage 2	(434)	435	(1)	–	–	–	–	–	–	–	(434)	435	(1)	–	–
Transfers to/(from) Stage 3	(42)	(28)	70	–	–	–	3	(3)	–	–	(42)	(25)	67	–	–
Net remeasurement due to transfers	–	–	–	–	–	2	(2)	(8)	–	(8)	2	(2)	(8)	–	(8)
New lending	2,674	79	15	–	2,768	(1)	–	(2)	–	(3)	2,673	79	13	–	2,765
Repayments, additional drawdowns and interest accrued	(484)	(12)	2	–	(494)	–	–	–	–	–	(484)	(12)	2	–	(494)
Derecognitions	(1,690)	(111)	(22)	(5)	(1,828)	–	2	5	2	9	(1,690)	(109)	(17)	(3)	(1,819)
Changes to model assumptions	–	–	–	–	–	1	1	–	–	2	1	1	–	–	2
31 December 2019	14,026	574	115	–	14,715	(9)	(5)	(20)	–	(34)	14,017	569	95	–	14,681
Off-balance sheet items															
Commitments and guarantees[1]					1,022					–					1,022

[1] Represents undrawn lending facilities. Further details can be found in note 31.

Notes to the financial statements
continued

30. Expected credit losses continued

	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	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 guarantees					1,125					–					1,125

Credit risk exposures
Retail mortgages

	31 December 2019				31 December 2018			
£'million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	9,873	449	16	–	9,242	275	19	2
1 to 29 days past due	1	21	4	–	3	14	4	1
30 to 89 days past due	–	32	10	–	–	47	7	1
90+ days past due	–	–	24	–	–	–	9	1
Gross carrying amount	9,874	502	54	–	9,245	336	39	5

Consumer lending

	31 December 2019				31 December 2018			
£'million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	213	–	–	–	272	–	–	–
1 to 29 days past due	10	–	–	–	3	3	–	–
30 to 89 days past due	–	–	–	–	–	5	–	–
90+ days past due	–	–	10	–	–	–	5	–
Gross carrying amount	223	–	10	–	275	8	5	–

Commercial lending (exc. asset and invoice finance)

	31 December 2019				31 December 2018			
£'million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	3,599	–	7	–	3,918	6	2	–
1 to 29 days past due	29	18	4	–	52	44	–	–
30 to 89 days past due	–	54	9	–	–	27	1	–
90+ days past due	–	–	31	–	–	–	7	–
Gross carrying amount	3,628	72	51	–	3,970	77	10	–

30. Expected credit losses continued

Asset and invoice finance credit risk exposure

	31 December 2019				31 December 2018			
£'million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL
Up to date	301	–	–	–	295	–	–	–
1 to 29 days past due	–	–	–	–	–	–	–	–
30 to 89 days past due	–	–	–	–	–	–	4	–
90+ days past due	–	–	–	–	–	–	–	–
Gross carrying amount	301	–	–	–	295	–	4	–

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 2019 was £0.5 million (year ended 31 December 2018: £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.

31. 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 30).

When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 12, these are recognised within our loans and advances to customers.

At 31 December 2019, we had undrawn loan facilities granted to retail and commercial customers of £726 million (2018: £883 million).

In addition, as part of our retail and commercial operations, we had commitments of £296 million (2018: £242 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.

Notes to the financial statements
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32. Legal and regulatory matters

As part of the normal course of business we are subject to legal and regulatory matters, the majority of which are not considered to have a material impact on the business.

The contingent liabilities detailed below are those which could potentially have a material impact, although their inclusion does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain. Based on the facts currently known, it is not possible at the moment to predict the outcome of any of these matters or reliably estimate any financial impact. As such, at the reporting date no provision has been made for any of these cases within the financial statements.

PRA and FCA investigations into RWA Adjustment and AIRB Accreditation

We are currently subject to enforcement investigations by both the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA').

- The PRA's investigation relates to potential breaches of the PRA's Fundamental Rules 2 and 6. The PRA is investigating whether there were failures to conduct regulatory reporting with due skill, care and diligence, to remedy an issue identified by the PRA in a timely fashion and/or to provide effective oversight and control to comply with its regulatory reporting obligations. These issues relate to our assessment and reporting of our risk-weighted assets. We are co-operating with the PRA's investigation. As yet, the PRA has given no indication of the likely timeframe for completing their investigation or of the action that might be taken as a result. As a result, it is not possible to identify the likely outcome of the investigation or quantify any potential liability for penalties or possible costs associated with the investigation with any certainty.
- The current scope of the FCA's investigation concerns potential breaches of articles 15 and 17 of the Market Abuse Regulation (EU 596/2014), Principle 11 of the FCA's Principles for Business, and Listing Principle 1, Premium Listing Principle 6 and Rule 1.3.3 of the Listing Rules, in the period between 1 June 2017 and 26 February 2019. The investigations relate to the announcements made on 23 January 2019 and 26 February 2019 in relation to risk-weighted assets and AIRB accreditation respectively and the impact these announcements had on our share price. We are co-operating with the FCA's investigation. As yet, the FCA has given no indication of the likely timeframe for completing their investigation or of any action that might be taken as a result. As a result, it is not possible to identify the likely outcome of the investigation or quantify any potential liability for penalties or possible costs associated with the investigation with any certainty.

Sanctions-related matters

In November 2017, on the advice of external legal counsel, we notified the Office of Foreign Assets Control ('OFAC') that we had discovered that a UK-based entity with which we had a banking relationship was subject to US sanctions relating to Cuba. We ended our relationship with the relevant entity. In addition, in 2019, we discovered that a payment made to a customer's account, which it had received from a UK-based financial institution, had been routed to the UK-based financial institution from Iran. A further notification was made to OFAC. We have initiated a review of the foregoing matters, together with a review of our broader sanctions compliance policies and transaction monitoring policies and procedures with the support of external advisers which is still ongoing. We continue to fully co-operate with our regulators in relation to their enquiries in this regard. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact of these matters with any certainty.

US class action

We are also defending civil claims brought against us in the State of California based on breaches of US Federal Securities laws arising from allegedly false and misleading statements in relation to our loan book between March 2018 and May 2019. We intend to vigorously defend these proceedings. They are at an early stage, and so it is not practicable to identify the likely outcome or estimate the potential financial impact.

33. Offsetting of financial assets and liabilities

Accounting policy	Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

During the year ending 31 December 2019 no financial instruments have been offset in the balance sheet (2018: none).

34. 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 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.

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 2019					
Assets					
Loans and advances to customers	14,681	–	–	14,652	14,652
Investment securities held at FVOCI	411	411	–	–	411
Investment securities held at amortised costs	2,154	508	1,647	–	2,155
Liabilities					
Deposits from customers	14,477	–	–	14,448	14,448
Deposits from central bank	3,801	–	–	3,801	3,801
Debt securities	591	602	–	–	602
Repurchase agreements	250	–	–	250	250
31 December 2018					
Assets					
Loans and advances to customers	14,235	–	–	14,857	14,857
Investment securities held at FVOCI	674	607	67	–	674
Investment securities held at amortised costs	3,458	605	2,824	–	3,429
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

Notes to the financial statements
continued

34. Fair value of financial instruments continued

Information on how fair values are calculated for the financial assets and liabilities noted above are explained below:

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.

35. Related parties

Key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties. 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	2019 £'million	2018 £'million
Short-term benefits	5.8	6.0
Share-based payment costs	1.7	3.1
Total compensation for key management personnel	7.5	9.1

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost represents the IFRS 2 charge for the year which includes awards granted in prior years that have not yet vested. 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 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	2019 £'million	2018 £'million
Loans outstanding at 1 January	3.8	3.0
Loans relating to persons and companies newly considered related parties	–	0.1
Loans relating to persons and companies no longer considered related parties	(3.1)	–
Loans issued during the year	0.2	0.8
Loan repayments during the year	(0.2)	(0.1)
Loans outstanding as at 31 December	0.7	3.8
Interest expense on loans payable to the Group (£'000)	90	82

There were five (31 December 2018: ten) loans outstanding at 31 December 2019 totalling £0.7 million (31 December 2018: £3.8 million). Of these, three are residential mortgages secured on property, one is an asset finance loan and one is an unsecured loan; all loans were provided on standard commercial terms.

In addition to the loans detailed above, we have issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel.

35. Related parties continued

Credit card balances outstanding at 31 December were as follows:

Group	2019 £'000	2018 £'000
Credit cards outstanding as at 31 December	16	34

Deposit balances outstanding at 31 December were as follows:

Group	2019 £'million	2018 £'million
Deposits held at 1 January	4.5	3.4
Deposits relating to persons and companies newly considered related parties	2.1	0.3
Deposits relating to persons and companies no longer considered related parties	(1.8)	(0.2)
Net amounts (withdrawn)/deposited	(1.5)	1.0
Deposits outstanding as at 31 December	3.3	4.5

Transactions with Group companies

Details of transactions with Group companies can be found within note 37.

Other transactions with related parties

The following transactions were carried out with related parties:

Group	2019 £'000	2018 £'000
Architectural design services	4,885	4,084
Creative and brand services	428	498
Total purchase of services with entities connected to key management personnel	5,313	4,582
Amounts outstanding as at 31 December owed by Metro Bank	82	51

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, who served as both Chair and a Non-Executive Director during the year, before stepping down from the Board on 17 December 2019.

Architectural design services

InterArch provided various architectural design services during the year, 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 with certain additional services provided on an hourly basis.

Creative and brand services

InterArch also provided branding, marketing and advertising services.

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 the Audit Committee using benchmarking reviews conducted by independent third parties. For the architectural design contract, which covers the build and design of stores, a 'big four' professional services firms carries out the benchmarking review. For 2019 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.

The creative and brand services contract and architectural design service contract ended on 27 February 2020. In order to ensure the smooth transition to new providers, the Group entered into a short agreement with InterArch to support the transition until the end of June 2020.

Further details of the review conducted by the Audit Committee can be found on page 67.

36. Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the (loss)/profit attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year.

	2019	2018
(Loss)/profit attributable to ordinary equity holders of Metro Bank (£'million)	(182.6)	27.1
Weighted average number of ordinary shares in issue – basic ('000)	147,420	92,964
Basic (loss)/earnings per share (pence)	(123.9)	29.1

Notes to the financial statements
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36. Earnings per share continued

Diluted EPS has been calculated by dividing the (loss)/profit 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. As we made a loss during the year to 31 December 2019, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive EPS.

	2019	2018
(Loss)/profit attributable to ordinary equity holders of Metro Bank (£'million)	(182.6)	27.1
Weighted average number of ordinary shares in issue – diluted ('000)	147,420	95,853
Diluted (loss)/earnings per share (pence)	(123.9)	28.2

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.

37. Investment in subsidiaries

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 2019:

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 Company do not differ from the proportion of ordinary shares held.

Transactions between the Company and Group subsidiaries

	2019 £'million	2018 £'million
Interest on inter-Company loan with SME Asset/Invoice Finance	7.4	6.1
Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance	291	305

The expected credit loss recognised within the Company's financial statements in respect of the inter-Company loan facility is less than £0.1 million (31 December 2018: less than £0.1 million).

Details of the registered offices of all our Group companies can be found on page 180.

38. Post balance sheet events

Capability and Innovation fund

Following changes to our strategy, a revised business case was submitted to BCR in respect of the £120 million grant it previously awarded us as part of the Capability and Innovation Fund (part of the RBS alternative remedies package). The proposal we put forward was accepted by BCR on 25 February 2020, as part of which our public commitments were amended. As part of this it was agreed that £50 million of the grant would be returned to BCR. The approval of the new proposal by the Board and its acceptance by BCR post year end is considered an adjusting event and, as such, the £50 million to be repaid is classified within other liabilities as at 31 December 2019. All of the sums recognised to date, either in the income statement or offset against capital expenditure, are still components of the revised commitments and, as such, no adjustments to these amounts have been made.

COVID-19

In late January 2020 the first incident of the coronavirus (COVID-19) was reported in the UK. This is clearly a serious situation impacting not just the UK, but also the global economy. The position has been, and continues to be, rapidly evolving and difficult to predict with any certainty. We do not consider COVID-19 to be an adjusting event and as such any impacts are not reflected within these financial statements. At present it is not possible to fully quantify the impact COVID-19 will have. Our focus has and will be to continue to support our colleagues and customers during this period. As part of this we have temporarily waived overdraft fees for personal current account customers, offered payment holidays to customers who need them and supported colleagues with flexible working arrangements.

Country-by-country reporting

Metro Bank and its subsidiaries only operate with the United Kingdom ('UK') and are all UK registered entities. The 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)	3,681
Turnover (£'million)	415.6
Loss before tax (£'million)	130.8
Tax expense (£'million)	51.8
Corporation tax paid (£'million)	1.3

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 2019 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 2019 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.

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
16 April 2020

Other disclosures

(Unaudited)

Reconciliation of statutory balance sheet to risk-weighted assets

	31 December 2019		
	Financial statements £'million	Average risk density	Risk-weighted assets £'million
Cash and balances with the Bank of England	2,989	1%	38
Loans and advances to customers	14,681	47%	6,967
Investment securities held at fair value through other comprehensive income	411	3%	13
Investment securities held at amortised cost	2,154	13%	383
Property, plant and equipment	856	100%	856
Intangible assets	168	–	–
Prepayments and accrued income	66	94%	62
Deferred tax asset[1]	–	n/a	7
Other assets	75	100%	75
Total assets	21,400	39%	8,401
Off-balance sheet assets			190
Credit risk (excluding counterparty credit risk)			8,591
CRR			5
Market risk			5
Operational risk			546
Total risk-weighted assets			9,147

[1] In the consolidated balance sheet per the financial statements, deferred tax is shown as a net figure with the deferred tax liability, however from a regulatory perspective the deferred tax asset and liability are treated separately.

	31 December 2018		
	Financial statements £'million	Average risk density	Risk-weighted assets £'million
Cash and balances with the Bank of England	2,472	1%	37
Loans and advances to customers	14,235	50%	7,061
Investment securities held at fair value through other comprehensive income	674	17%	116
Investment securities held at amortised cost	3,458	18%	606
Property, plant and equipment	454	100%	454
Intangible assets	197	–	–
Prepayments and accrued income	66	100%	66
Deferred tax asset	41	51%	21
Other assets	50	100%	50
Total assets	21,647	39%	8,411
Off-balance sheet assets			149
Credit risk (excluding counterparty credit risk)			8,560
CRR			2
Market risk			4
Operational risk			370
Total risk-weighted assets			8,936

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 divided by average gross loans for the year.

	2019 £'million	2018 £'million
Expected credit loss expense (note 30)	11.7	8.0
Average gross lending	15,048	12,005
Cost of risk	0.08%	0.07%

Cost of deposits

Interest expense on customer deposits divided by the average deposits from customers for the year.

	2019 £'million	2018 £'million
Interest on customer deposits (note 2)	112.4	83.7
Average deposits from customer	14,450	13,610
Cost of deposits	0.78%	0.61%

Loan-to-deposit ratio

Loans and advances to customers expressed as a percentage of total deposits. It is a commonly used ratio within the banking industry to assess liquidity.

	2019 £'million	2018 £'million
Loans and advances to customers (note 12)	14,681	14,235
Deposits from customer (note 18)	14,477	15,661
Loan-to-deposit ratio	101%	91%

Net interest margin

Net interest income as a percentage of average interest-earning assets.

	2019 £'million	2018 £'million
Net interest income (note 2)	308.1	330.1
Average interest-earning assets	20,355	18,279
Net interest margin	1.51%	1.81%

Alternative performance measures

(Unaudited)
continued

Underlying (loss)/profit

Underlying (loss)/profit 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.

The following items are considered to be non-underlying:

Non-underlying item	Description	Reason for exclusion
Listing Share Awards	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 awards were one-off in nature as they directly related to our listing on the London Stock Exchange and are distinct from the annual share options we grant. Once the last tranche of share awards has vested in 2021 there will be no ongoing cost to the business.
Impairment and write-offs of PPE and intangible assets	The costs associated with non-current assets that are no longer being used by and/or generate future economic benefit for the business.	The impairments and write-offs relating to PPE primarily relate to work undertaken on aborted stores. As it is not our intention to open stores indefinitely these costs are considered to not reflect the true performance on the business. Impairments and write-offs of intangible assets tend to be exceptional and therefore these are removed as they distort comparison between years. The significant write-off of intangible assets in 2019 is considered to be largely a one-off event.
Net BCR costs	These costs include the amounts spent in relation to the RBS alternative remedies package. This includes both the costs of the successful bid to the Capability and Innovation Fund as well as costs incurred preparing for the incentivised switching scheme. In addition, it includes the costs spent delivering the commitments and the associated income that is offset against it.	The bid to BCR for the alternative remedies package, as well as the fulfilment of the commitments, is considered a one-off event.
Remediation costs	Remediation costs comprise of money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA as well as work undertaken in relation to sanctions compliance. It also includes amounts in respect of customer remediation.	The remediation costs are felt to be a one-off event and as such are removed to allow greater comparability between periods.
Transformation costs	Transformation costs primarily consist of the costs associated with redundancy programmes during the year as part of our approach to right-sizing teams as well as the costs of work undertaken to establish our cost reduction programme.	The transformation costs are seen as a non-recurring cost stream aimed at addressing the challenges the business faces. These are therefore removed in order to prevent year-on-year distortion.
Derecognition of DTA for unused tax losses	The derecognition of unused tax losses in line with the requirement of IAS 12 'Income Taxes' as a result of our revalution of short-term profitability outlook.	These unused tax losses were accumulated during our earlier years of operation and the derecognition will not reoccur in the future. The derecognition of these losses does not, however, impact their economic recoverability.

A reconciliation from statutory (loss)/profit before tax to underlying (loss)/profit before tax is set out on page 179.

Underlying earnings per share is calculated by dividing the underlying (loss)/profit by the weighted average number of basic/diluted shareholders as disclosed in note 36.

Year ended 31 December 2019	Statutory basis £'million	Listing Share Awards £'million	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net BCR costs £'million	Transformation costs £'million	Remediation costs £'million	Derecognition of DTA for unused tax losses £'million	Underlying basis £'million
Net interest income	308.1	–	–	–	–	–	–	308.1
Net fee and commission income	61.0	–	–	–	–	–	–	61.0
Net gains on sale of assets	1.6	–	–	–	–	–	–	1.6
Other income	44.9	–	–	(15.5)	–	–	–	29.4
Total income	415.6	–	–	(15.5)	–	–	–	400.1
General operating expenses	(380.6)	0.6	–	18.1	11.5	26.8	–	(323.7)
Depreciation and amortisation	(76.4)	–	–	–	–	–	–	(76.4)
Impairment and write-offs of PPE and intangible assets	(77.7)	–	77.7	–	–	–	–	–
Total operating expenses	(534.7)	0.6	77.7	18.1	11.5	26.8	–	(400.1)
Expected credit loss expense	(11.7)	–	–	–	–	–	–	(11.7)
Loss before tax	(130.8)	0.6	77.7	2.6	11.5	26.8	–	(11.7)
Taxation	(51.8)	–	(1.8)	(0.5)	(2.2)	(0.7)	52.7	(4.3)
Loss for the period	(182.6)	0.6	75.9	2.1	9.3	26.1	52.7	(16.0)

Year ended 31 December 2018	Statutory basis £'million	Listing Share Awards £'million	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net BCR costs £'million	Transformation costs £'million	Remediation costs £'million	Derecognition of DTA for unused tax losses £'million	Underlying basis £'million
Net interest income	330.1	–	–	–	–	–	–	330.1
Net fee and commission income	37.6	–	–	–	–	–	–	37.6
Net gains on sale of assets	10.7	–	–	–	–	–	–	10.7
Other income	25.7	–	–	–	–	–	–	25.7
Total income	404.1	–	–	–	–	–	–	404.1
General operating expenses	(305.6)	0.8	–	3.8	–	–	–	(301.0)
Depreciation and amortisation	(45.1)	–	–	–	–	–	–	(45.1)
Impairment and write-offs of PPE and intangible assets	(4.8)	–	4.8	–	–	–	–	–
Total operating expenses	(355.5)	0.8	4.8	3.8	–	–	–	(346.1)
Expected credit loss expense	(8.0)	–	–	–	–	–	–	(8.0)
Profit before tax	40.6	0.8	4.8	3.8	–	–	–	50.0
Taxation	(13.5)	–	–	–	–	–	–	(13.5)
Profit for the period	27.1	0.8	4.8	3.8	–	–	–	36.5

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 2311
International callers: +44 121 415 7095

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.

2020 Financial Calendar

Annual General Meeting – 26 May 2020

Due to COVID-19 and recent regulatory changes, our dates in relation to our financial calendar will be made available in due course on our website.

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

In light of the COVID-19 pandemic and the Government's restrictions imposed on public gatherings and non-essential travel, we have restricted attendance at our upcoming 2020 AGM. Further details are published in the Notice of Meeting mailed to shareholders and is also available on our website. The safety of our shareholders and our colleagues is of the utmost importance to the Board.

Forward-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 2019

Range	Total number of holdings	Percentage of holders	Total number of shares held at 31 December 2019	Percentage of total
1–1,000	396	40.30%	111,905	0.07%
1,001–5,000	153	18.80%	365,386	0.21%
5,001–10,000	68	8.35%	518,164	0.30%
10,001–50,000	111	13.64%	2,729,217	1.58%
50,001–100,000	36	4.42%	2,676,218	1.55%
100,001–500,000	67	8.23%	16,312,772	9.46%
500,001–1,000,000	19	2.33%	13,762,204	7.98%
1,000,001 and above	32	3.93%	135,944,592	78.85%
Total	812	100.00%	172,420,458	100.00%

Shareholder profile by category as at 31 December 2019

Category	Number of holders	Percentage of holders within type	Shares held at 31 December 2019	Percentage of issued share capital
Private shareholders	286	35.22%	2,362,666	1.37%
Banks	5	0.62%	381,372	0.22%
Nominees and other institutional investors	521	64.16%	169,676,420	98.41%
Total	812	100.00%	172,420,458	100.00%

It should be noted that many private investors hold their shares through nominee companies and therefore the percentage of shares held by private shareholders may be higher than that shown.

Notes

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Designed and produced by Emperor
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