THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are in the UK or, if not, from another appropriately authorised independent financial adviser. If you have sold or otherwise transferred all of your Shares, please send this document, together with the other accompanying documents, at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

METRO BANK PLC

(A public limited company incorporated in England and Wales on 6 November 2007 with registration number 6419578)

NOTICE OF GENERAL MEETING
OFFERS FOR SUBSCRIPTION

of 20,833,333 New Shares at £24 per New Share to raise £500 million and up to an additional 4,166,666 New Shares at £24 per New Share to raise up to an additional £100 million

This document should be read in its entirety. Your attention is drawn to the letter from the Chairman of Metro Bank which is set out on pages 6 to 11 and which recommends you to vote in favour of the Resolutions to be proposed at the General Meeting referred to below.

Notice of a General Meeting of Metro Bank to be held at One Southampton Row, London WC1B 5HA, London at 12 noon on 22 February 2016 is set out in Appendix I – Notice of General Meeting. A Form of Proxy for use at the General Meeting is enclosed and, to be valid, should be completed, signed and returned so as to be received by the Company Secretary at Metro Bank PLC, One Southampton Row, London WC1B 5HA or by email to shareholderproxy@metrobank.plc.uk as soon as possible but, in any event, so as to arrive no later than 3.00 p.m. (London time) on 18 February 2016. Completion and return of a Form of Proxy will not prevent members from attending and voting in person.

Your attention is drawn to the Risk Factors in Part II (*Risk Factors*) of Appendix III – Private Placement Memorandum.

Qualifying Shareholders who wish to subscribe for New Shares under the Offers are required to submit their Application Form during the Offer Period and to pay their Subscription Amount into the Subscription Account in Pounds Sterling in cleared funds on or before 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its sole discretion determine).

This is a confidential communication by Metro Bank to its Shareholders. This Circular must not be redistributed, forwarded or otherwise sent to any other person (other than professional advisers), directly or indirectly, in or into the United States or any other jurisdiction in which distribution or release would be unlawful. Failure to observe these restrictions could jeopardise completion of the Offers. This Circular has not been approved by the FCA. The Offers have not been, nor will be underwritten.

In relation to its acceptance of deposits, provision of investment services, and arranging and administering regulated mortgage contracts, Metro Bank is authorised by the PRA and regulated by the FCA and the PRA. Metro Bank is authorised and regulated by the FCA to carry on deposit taking, lending, a consumer credit business and all other commercial banking activities. Metro Bank is also a member of the Financial Services Compensation Scheme and the Financial Ombudsman Service.

Application has been made for listing of the share capital of the Company on the Official List of the UK Listing Authority and for admission to listing on the main market of the London Stock Exchange.

THE NEW SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), THE LAWS OF ANY STATE OF THE UNITED STATES OR THE LAWS OF ANY NON-U.S. JURISDICTION AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES.

IMPORTANT INFORMATION

IMPORTANT: You must read the following before continuing. The following disclaimer applies to the Circular and you are, therefore, advised to read this section carefully before reading, assessing or making any other use of the Circular. In accessing the Circular, you agree to be bound by the limitations contained in this Important Information, including any modifications to them from time to time, each time you receive any information from the Company as a result of such access. You acknowledge that delivery of the Circular (whether in physical form or electronically) is intended for you only as the addressee and you agree that you will not forward this Circular or, if applicable, an electronic transmission of this Circular, to any other person (other than your professional advisers). This Circular has been issued by the Company in connection with the Offers (as defined in this Circular) and any circulation of and access to an electronic transmission of this Circular has been and shall be limited so that neither the Offer nor the Top-Up Offer shall constitute a public offer or a general solicitation. This Circular is being made available on the basis that the recipients keep confidential any information contained herein or otherwise made available, whether orally or in writing, in connection with Metro Bank. This Circular is confidential and must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of Metro Bank.

This Circular does not constitute, or form part of, any offer or invitation to sell or issue, or any solicitation of any offer to subscribe for, any New Shares in any circumstances in which such offer or solicitation is unlawful.

If this Circular has been made available to you in electronic form, you are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, neither the Company nor any person who controls it nor any director, officer, employee or agent of the Company or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the documents distributed to you in electronic format and the hard copy version available to you on request from the Company. You are responsible for protecting against viruses and other destructive items and any receipt of an electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Circular is submitted to you on a confidential basis, among other things, for the purpose of evaluating an investment in the New Shares. The information contained herein is intended solely for selected sophisticated investors having the necessary expertise to determine whether to accept the risks inherent in such an investment and does not constitute a prospectus or listing particulars relating to Metro Bank.

In making an investment decision in relation to the New Shares, potential investors must rely on their own examination of Metro Bank and the New Shares and the terms of the Offers described in the Circular, including the merits and risks involved. **If you are in any doubt about the contents of this Circular, you should consult a stockbroker, bank manager, solicitor, accountant or other independent professional adviser who specialises in advising on dealings in such shares and other securities.**

No Director or any other person has been authorised to give any information or to make any representation other than as contained in this Circular in connection with the Offers and, if given or made, such information or representation must not be relied on as having been authorised by Metro Bank or any of the Directors. The delivery of this Circular or the issue or delivery of New Shares does not, under any circumstances, constitute a representation or warranty or create any implication that the information herein is correct as of any time subsequent to the date hereof.

The contents of this Circular should not be considered to be legal, tax, investment or other advice, and each potential investor should consult with its own counsel and advisers as to all legal, tax, regulatory, financial and related matters concerning an investment in New Shares and as to its suitability for such investor. Further, potential investors should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of Shares and any foreign exchange restrictions that may be relevant thereto.

No person receiving a copy of this Circular in any territory may treat this Circular as constituting an offer or invitation to that person to subscribe for New Shares, nor should such person subscribe for New Shares, unless in the relevant jurisdiction such an offer or invitation and subscription could lawfully be made to that person without compliance with any registration requirements.

Neither this Circular nor any copy of it may be taken or transmitted into or distributed in Australia, Canada or Japan or to any resident thereof. Any failure to comply with this restriction may constitute a violation of the securities laws of Australia, Canada or Japan. The distribution of this Circular in other jurisdictions may be restricted by law and the persons into whose possession this Circular comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

For persons in the United Kingdom only:

This Circular is not a prospectus for the purposes of FSMA. Accordingly, the New Shares may not be sold or offered in the UK by means of this Circular, except in circumstances which are exempt from the prospectus requirements of FSMA. In the UK, this Circular and the investment activity to which it relates may only be communicated to, and is only directed at persons in the following categories, namely:

(i) persons having professional experience in matters relating to investments, being investment professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) ("**FPO**");

(ii) persons falling within Article 49(2)(a) to (d) of the FPO (including high net worth companies and unincorporated associations); and

(iii) persons to whom the communication may otherwise lawfully be made,

(all such persons being together referred to as "**relevant persons**").

This Circular must not be acted on or relied upon by any persons who are not relevant persons. Any investment or investment activity to which this Circular relates is available in the UK only to relevant persons, and will be engaged in only with relevant persons and it will be a term of any subscription of New Shares pursuant to the Offers that persons with a UK address warrant that they fall within one of the categories (i) to (iii) above. Persons in the UK who fall outside categories (i) to (ii) above must check that they fall within category (iii). Any person in the UK who does not fall within categories (i) to (iii) above may not rely on or act upon the matters communicated in this Circular. Any person in the UK falling outside categories (i) to (iii) who has received any document forming part of this Circular must return it immediately.

For persons in the European Economic Area only:

This Circular is being distributed in member states of the European Economic Area only to (i) persons who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (as amended by Directive 2010/73/EU) ("**Qualified Investors**") and (ii) certain other persons to whom the distribution or availability of this Circular is permitted by applicable law. This Circular must not be acted or relied upon (i) in the United Kingdom, by persons who are not relevant persons and, except with the specific prior approval of the Company, Qualified Persons, and (ii) in any member state of the European Economic Area, other than the United Kingdom, by persons who are not Qualified Investors.

For residents of the United States only:

This Circular is being distributed in the United States only to persons who are "accredited investors" as such term is defined in Rule 501(a) of Regulation D under the Securities Act.

The New Shares offered hereby have not been and will not be registered under the Securities Act or the laws of any state of the United States. The New Shares are being offered in the United States only to persons who are "accredited investors" as such term is defined in Rule 501(a) of Regulation D under the Securities Act pursuant to an exemption from registration under Section 5 of the Securities Act and outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). The New Shares subscribed for in the Offers by purchasers in the United States will be "restricted securities" (as defined in Rule 144 under the Securities Act) and are subject to restrictions on transfer. See Part V (*Details of the Offers*).

The Company is a public limited company incorporated under the laws of England and Wales. In addition, some of the Directors and the Company's officers may reside outside the United States, and all or a substantial portion of their assets and the Company's assets may be located in jurisdictions outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Company and those Directors and officers, or to realise in the United States upon judgments of courts of the United States predicated upon civil liability provisions of the United States federal securities laws.

Metro Bank is not a member of the Federal Deposit Insurance Corporation (the "**FDIC**"). Accordingly, the deposits held by it are not insured by the FDIC.

Definitions

Certain terms used in this Circular are defined in Part X (*Definitions*).

TABLE OF CONTENTS

Page

PART I
LETTER FROM THE CHAIRMAN OF METRO BANK PLC

(incorporated in England and Wales under the Companies Act 2006
with registered number 6419578)

One Southampton Row
London
WC1B 5HA
United Kingdom

26 January 2016

*To holders ("**A Shareholders**") of A Ordinary Shares of 0.0001p each in the Company (the "**Shares**") and B Ordinary Shares of 0.0001p each in the Company ("**B Shares**"). Please note that under the terms of the Company's Senior Employee B Share Ownership Plan, the voting rights attached to B Shares will be exercised by the Company, as the attorney-in-fact of the holders of the B Shares, as the Board sees fit. <u>This document is provided to holders of B Shares for information purposes only.</u>*

Dear Shareholder

Proposed Offer, Top-Up Offer and Admission

1 Introduction

As has been noted in previous Shareholder letters, Metro Bank's intention is to seek the admission of its Shares to listing on the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange plc ("**Admission**") in 2016. I have recently held discussions with a wide range of Shareholders and certain institutional and other investors who have expressed interest in supporting an equity fundraising by the Company to raise between £400 million and £600 million for its future development in conjunction with an application for Admission in the first quarter of 2016. The Board has, therefore, decided to proceed with the fundraising by way of the Offers described in this letter, together with Admission (together the "**Transaction**").

It is proposed that 20,833,333 New Shares will be issued under the Offer at a price of £24 per Share (the "**Offer Price**") and, subject to demand, that up to 4,166,666 New Shares will be issued at the Offer Price under the Top-Up Offer (together with the Offer, the "**Offers**"). A Shareholders' pre-emption rights will be respected in full in relation to applications under the Offers[1]. Such Shareholders may also apply to subscribe for additional New Shares in the Offers in excess of their Offer Entitlements. Demand in excess of pre-emptive entitlements will be allocated entirely at the discretion of the Company. Any New Shares not taken up by Qualifying Shareholders under their pre-emptive entitlements will be available to satisfy excess demand from others and to be offered to other potential investors.

The Offers are conditional on the Shareholder approvals described in this letter which will be sought at a general meeting of Shareholders on 22 February 2016 (the "**General Meeting**"). A Notice of Meeting is set out in Appendix I.

---

[1] On Admission and following conversion of the B Shares the Company's A Ordinary Shares will be redesignated as ordinary shares and the Company will have a single class of ordinary share with a nominal value of 0.0001p in issue.

2 Information on the Company

Metro Bank was the first full-service, independent, new High Street bank to open in the UK in more than 100 years. Metro Bank uses a disruptive, deposit-driven funding model and a superior retail-focused customer service proposition that emphasises simple, straightforward banking in order to turn its customers into "FANS".

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 40 stores across London and the surrounding commuter areas, with 655,000 customer accounts, £5,108 million in deposits from customers and £3,549 million of gross loans and advances to customers as of 31 December 2015.

Its emphasis on its customer service-led model and culture means that Metro Bank: keeps "stores" open seven days a week, early morning until late; supports 24/7 telephony, digital and mobile banking; and offers simple products and fair pricing. In order to create a culture that supports these values Metro Bank seeks first to hire "colleagues" (not "employees") with the right attitude and train them with the appropriate skills to AMAZE its customers.

Metro Bank's superior customer experience is supported by a scalable, innovative and flexible end-to-end technology infrastructure that allows Metro Bank's colleagues to focus on creating an "AMAZE(ING)" customer experience.

Adding to its offering, Metro Bank entered into two new partnerships in 2015 with other brands that share Metro Bank's zeal for great service: an innovative partnership with peer-to-peer lender Zopa to originate loans through Zopa's platform and an exclusive co-branded banking partnership with St. James's Place Wealth Management plc.

The Board believes that Metro Bank's relentless focus on customer service and convenience, supported by the Company's flexible IT and powerful culture strongly differentiates Metro Bank in the UK market and provides an enduring competitive advantage. Management and the Board continue to focus on building Metro Bank into a major banking force in the UK aided by a powerful recognised brand.

3 Background to and reasons for the Transaction

As a growth company, Metro Bank will have increasing capital needs. The growth of the Company in its business plan has been predicated on periodic injections of additional capital, with the expectation that the Company would seek Admission as early as possible.

In early 2010, Metro Bank raised £75 million for the purposes of its launch. A further £51.75 million was raised by way of an offer for subscription of Shares at £9.00 per Share in December 2010, a further £126.5 million at £13.00 per Share in June 2012 and a further £387.5 million at £13.00 per Share in December 2013.

The Directors believe that the Transaction will provide significant additional capital to support future growth in new stores and balance sheet assets and also provide liquidity to Shareholders.

4 The Transaction

Details of the Offers and the arrangements regarding the Subscription Account are set out in Part V (*Details of the Offers*) and Part VI (*Application Instructions and Procedures*). Further information on the terms and conditions of the Offers are set out in Part VII (*Subscription Terms and Conditions*).

A listing document (referred to in the UK and elsewhere in this document as a prospectus) is expected to be published on or around 24 February 2016, with Admission to take effect on or around 29 February 2016. The listing document must be approved by the UK Listing Authority (the regulator responsible for listing on the UK's Official List) in advance of publication.

The UK Listing Authority has confirmed that Metro Bank meets the eligibility requirements for listing, subject to its final approval of the prospectus. An announcement will be made confirming the expected date of Admission and providing details of where the prospectus can be obtained.

5 General Meeting

Completion of the Transaction is conditional upon Shareholders' approval of certain resolutions being obtained at the General Meeting. Accordingly, you will find set out at the end of this document a notice convening the General Meeting to be held at One Southampton Row, London WC1B 5HA, London at 12 noon on 22 February 2016 at which the following Resolutions will be proposed, each of which is conditional on Admission:

(a) ***Approval of the Transaction***

Shareholders are being asked to approve the Transaction as described in this Circular, including the allotment of New Shares for the purposes of the Offers and the other steps required to be taken to implement the Transaction.

This Resolution is a special resolution.

(b) ***Adoption of New Articles***

Conditional on Admission, Shareholders are being asked to approve the adoption of a new set of Articles (substantially in the form set out in Appendix II (*New Articles*) of this Circular and summarised in Part IX (*Summary of New Articles*). These New Articles are in a form appropriate for a listed company.

This Resolution is a special resolution.

(c) ***Future allotment authorities (following listing)***

Conditional on Admission, Shareholders are being asked to authorise the Directors to allot Shares up to an aggregate nominal amount of £28.37 (which will be equivalent to approximately one-third of the total issued ordinary share capital of the Company on Admission, exclusive of treasury shares) and a further £28.37 only in respect of a rights issue (which will be equivalent to approximately a further one-third of the total issued ordinary share capital of the Company on Admission, exclusive of treasury shares).

These authorities are in line with corporate governance guidelines for listed companies and will expire on 21 February 2021. The Directors will exercise this future authority to allot only when satisfied that it is in the interests of the Company to do so. They have no present intention of exercising this authority, except in connection with any issue of Shares under the Company's share option scheme. The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to future market developments and to enable allotments to take place to finance business opportunities as they arise.

This Resolution is an ordinary resolution.

(d) ***Authority to disapply pre-emption rights for future share issues (following listing)***

The Directors can only allot Shares for cash to persons who are not already Shareholders if authorised to do so by the Shareholders. Conditional on Admission, Shareholders are, therefore, being asked to authorise the Directors to allot Shares for cash without first offering them to existing Shareholders (i) in connection with a pre-emptive offer or rights issue or (ii) otherwise up to an aggregate nominal amount of £8.51. This sum represents 8,510,000 Shares of 0.0001 pence each, being equivalent to approximately 10 per cent. of the Company's issued share capital, excluding treasury shares on Admission. This resolution enables the Directors: (i) to modify the strict requirements for a rights issue in circumstances where they consider it necessary or expedient; and (ii) to conduct non-pre-emptive placings in accordance with Pre-emption Group guidance.

In addition, if the Company has purchased its own Shares and holds them in treasury, this resolution would give the Directors power to sell these Shares for cash to persons other than existing Shareholders, subject to the same limit that would apply to issues of Shares for cash to those persons.

This resolution will expire on 21 February 2021.

The Board considers the authority in this resolution to be appropriate in order to allow the Company flexibility to finance future business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions.

The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles, as updated in March 2015, and not to allot shares for cash on a non pre-emptive basis pursuant to the authority in this resolution (other than pursuant to a rights issue or pre-emptive offer):

(i) in excess of an amount equal to 5 per cent of the total issued ordinary share capital of the Company excluding treasury shares; or

(ii) in excess of an amount equal to 7.5 per cent of the total issued ordinary share capital of the Company excluding treasury shares within a rolling three-year period, without prior consultation with shareholders,

in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

This Resolution is a special resolution.

(e) ***Authority to make market purchases (following listing)***

In certain circumstances, it may be advantageous for the Company to purchase its own Shares and this Resolution seeks authority to enable the Company to make market purchases of up the number of Shares equivalent to 10 per cent. of the issued ordinary share capital of the Company as at Admission. The maximum price (exclusive of expenses) which may be paid for a Share will be an amount equal to the higher of (i) 105 per cent. of the average of the middle market quotations for a Share derived from the London Stock Exchange Daily Official List for the five business days immediately prior to the day on which the Share is contracted to be purchased, and (ii) an amount equal to the higher of the price of the last independent trade of a Share and the highest current independent bid for a Share derived from the London Stock Exchange Trading System. The minimum price (exclusive of expenses) per Share will be 0.0001 pence, being the nominal value of a Share. The authority conferred by this Resolution will expire on 21 February 2021.

The Directors will use this authority to purchase Shares only after careful consideration (taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company). Further, the Directors intend to use this authority to buy back Shares only if they believe that to do so would have a positive effect on earnings per Share and would be in the best interests of Shareholders taken as a whole. Shares purchased by the Company pursuant to this authority may be held in treasury or may be cancelled.

This Resolution is a special resolution.

(f) ***Calling of a general meeting other than an Annual General Meeting***

Under the Companies Act, the notice period required for general meetings is 21 days, unless Shareholders approve a shorter notice period, which cannot, however, be less than 14 clear days. Conditional on Admission, this resolution seeks approval to call a general meeting (other than the Annual General Meeting) on 14 clear days' notice. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. Annual General Meetings of the Company will continue to be held on at least 21 clear days' notice.

This Resolution is a special resolution.

Each of the resolutions set out above is conditional on Admission and will be of no effect if Admission does not occur.

6 Conversion of B Shares

Admission will be a Realisation Event for the purposes of the Articles and will, therefore, trigger conversion of the B Shares. Further information is set out on this in Part VIII (*Conversion of B Shares*).

The B Shares were granted to management under a management incentive plan established in 2009. B Shares will convert into Shares on a listing of Metro Bank with an aggregate value at the Offer Price of £21.7 million. This represents the B Shareholders' entitlement to a pro rata share of the excess over a "hurdle rate" market capitalisation target of £75 million (being the capitalisation of the Company at the time the shares were awarded), escalated at 8 per cent. per annum. The B Shares will convert into 916,561 Shares representing 1.07 per cent. of the issued share capital of Metro Bank on Admission.

7 Information for U.S. Shareholders

As a large number of Shareholders are based in the United States and may not be familiar with some of the features of UK listed companies that will be relevant to them as Shareholders following Admission, certain information that may be of interest to such Shareholders is set out in Part IV (*Shareholder Information*), including changes to the Articles, pre-emption rights that will apply following listing, new Shareholder approval requirements for transactions, requirements to disclose interests in the Company above 3 per cent. and procedures applicable to sales by US Shareholders. This information is intended as a high-level guide and should not be regarded as specific legal or tax advice. Any Shareholder with further questions about participation in the Offers and the effect of Admission on their holdings of Shares should speak to their own professional advisers as soon as possible.

8 Taxation

Information on U.S. and UK taxation with regard to the Transaction is set out in Part XX (*Taxation*) of Appendix III – Private Placement Memorandum. This information is intended only as a general guide to the current U.S. and UK tax positions applicable to Shareholders. Shareholders are advised to consult with their own independent professional tax advisers prior to participating in the Offers.

9 Action to be taken

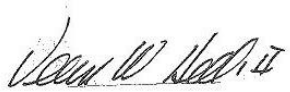
You will find enclosed a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at the General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and, in any case, so as to be received by the Company Secretary at Metro Bank PLC, One Southampton Row, London WC1B 5HA or by email to shareholderproxy@metrobank.co.uk no later than 18 February 2016. The return of a Form of Proxy will not prevent you from attending the meeting and voting in person if you wish.

10 Further information

Your attention is drawn to the further information contained in the remainder of the Circular (including the information set out in the Appendices to the Circular).

I, together with my fellow Directors who hold Shares, will be voting in favour of each of the Resolutions.

Yours faithfully



Vernon W. Hill, II

Chairman

PART II
DIRECTORS, SECRETARY AND ADVISERS

Directors	Vernon W. Hill, II (*Chairman*) Craig Donaldson (*Chief Executive Officer*) Michael Brierley (*Chief Financial Officer*) Alastair Ben Gunn (*Senior Independent Director*) Stuart Bernau (*Non-Executive Director*) Keith Carby (*Non-Executive Director*) Roger Farah (*Non-Executive Director*) Lord Howard Flight (*Non-Executive Director*) Eugene Lockhart (*Non-Executive Director*) Sir Michael Snyder (*Non-Executive Director*)
Company Secretary	Michael Brierley
Registered and head office of the Company	One Southampton Row London WC1B 5HA United Kingdom
English and U.S. legal advisers to the Company	Linklaters LLP One Silk Street London EC2Y 8HQ United Kingdom
Registrar	Equiniti Limited Aspect House Spencer Road West Sussex BN99 6DA United Kingdom

PART III
OFFER STATISTICS

Offer Price per Share	£24
Number of New Shares to be issued under the Offer	20,833,333
Number of New Shares to be issued under the Top-Up Offer	up to 4,166,666
Number of Shares in issue following completion of the Offers(1)(2)	up to 85,290,502
New Shares as a percentage of the enlarged issued share capital(1)(2)	approximately 29 per cent.
Minimum proceeds of the Offers	£400 million
Maximum proceeds of the Offers(2)	£600 million

Notes:

(1) Taking into account the conversion of 916,561 B Shares into Shares and the issue of c. 166,250 Shares in connection with the Project Revolution Awards (as described in paragraph 10.13 of Part XVII (*Additional Information*) of the Private Placement Memorandum).

(2) Assuming the issuance of the maximum number of New Shares in the Top-Up Offer.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS(1)

Record Date for the Offer	Close of business on 22 January 2016
Posting of Circular	26 January 2016(1)
Opening Date of the Offer Period	27 January 2016
Publication of Supplemental Private Placement Memorandum	c. 16 February 2016
Payment Date: latest time and date for receipt of completed Application Forms and payment of the Subscription Amount	4.00 p.m. on 22 February 2016(2)
General Meeting	12 noon on 22 February 2016
Confirmation of allocations to Shareholders	23 February 2016
Commencement of conditional dealings(3)	24 February 2016
Closing Date, Admission and crediting of CREST accounts(3)	29 February 2016
Despatch of share certificates and refund of surplus subscription amounts	by 8 March 2016

Notes:

(1) Each of the dates in the timetable is subject to change. In particular, Metro Bank reserves the right to extend the Offer Period beyond 22 February 2016 to a date to be determined at the sole discretion of the Board. Metro Bank also reserves the right to extend the date for payment of the Subscription Amount into the Subscription Account beyond 22 February 2016.

(2) Qualifying Shareholders are required to submit their Application Form during the Offer Period and to make payment of their Subscription Amount into the Subscription Account in Pounds Sterling in cleared funds on or before 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its sole discretion determine). From the Payment Date until Admission, if we provide to you supplementary disclosure, including by way of: (i) identifying information that is in the prospectus published in connection with Admission that was not included in the Private Placement Memorandum or any supplement thereto or (ii) a supplementary prospectus, you will be allowed, for a period of time to be notified to you, to cancel your subscription for Shares in the Offers. In such event, the Closing Date and the date of Admission may change.

(3) Conditional trading in Shares on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 24 February 2016. Admission to the Official List and unconditional trading on the London Stock Exchange is expected to take place on or about 29 February 2016. Confirmation of the date for conditional trading and Admission and details of when and where the prospectus in connection with the application for Admission can be obtained when made will be announced. **All dealings in the Shares prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.**

PART IV
SHAREHOLDER INFORMATION

This Part IV (*Shareholder Information*) sets out certain information in relation to changes to the Articles, changes in corporate governance and restrictions on the transfer of Shares arising from the transition to becoming a premium listed company in the UK. This information may be of particular interest to U.S. Shareholders.

1 Articles

On Admission, it is proposed that the Articles will be replaced with a typical set of articles for a listed company (the "**New Articles**"), for example making provision for Shares to be held in uncertificated form so that they can be traded through CREST. The main changes contained in the New Articles from a Shareholder perspective are set out below. A more detailed summary of the New Articles is contained in Part IX (*Summary of New Articles*) and the full text of the proposed New Articles will be substantially as is set out in Appendix II. The final form of the New Articles will be tabled at the General Meeting and Shareholders will be asked to approve the adoption of the New Articles.

1.1 *Issue of Shares and pre-emption rights*

1.1.1 The New Articles will not contain pre-emption provisions and, instead, UK statutory rules requiring authority for issues of Shares and disapplication of pre-emption rights will apply.

1.1.2 Shareholders are being asked to approve at the General Meeting:

(i) advance authority to allot up to one-third of the Company's issued share capital, plus up to a further one-third to be used for pre-emptive offers only; and

(ii) disapplication of pre-emption rights (which would otherwise apply to all issues of Shares for cash) for up to 10 per cent. of the Company's issued share capital. Consistent with the statement of intention made by the Company in this Circular, the Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles, as updated in March 2015, and not to allot shares for cash on a non pre-emptive basis pursuant to the authority in this resolution (other than pursuant to a rights issue or pre-emptive offer):

(a) in excess of an amount equal to 5 per cent of the total issued ordinary share capital of the Company excluding treasury shares; or

(b) in excess of an amount equal to 7.5 per cent of the total issued ordinary share capital of the Company excluding treasury shares within a rolling three-year period, without prior consultation with shareholders,

and in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

1.1.3 While these authorities are being sought for a five year period, as is customary for UK listed companies, the Company intends that these authorities will be proposed to Shareholders annually for renewal at the Annual General Meeting.

1.2 ***Transfer of Shares***

Listed Shares must be freely transferable, and, therefore, all current restrictions, pre-emption and tag-along rights relating to the transfer of Shares will be removed, except that U.S. holders of New Shares will be required to adhere to specific requirements in relation to transfers of their New Shares for a period of time following Admission as set out in more detail in paragraph 4 of this Part IV (*Shareholder Information*).

1.3 ***Removal of B Share provisions***

Admission will trigger the conversion of the B Shares (see Part VIII (*Conversion of B Shares*) for further information on this process), therefore, from Admission, the Company will have a single class of Shares in issue.

1.4 ***Related party transactions***

1.4.1 The Articles currently prohibit the Company from entering into related party transactions unless approved by either the Audit Committee or a majority of independent Directors. The Company intends to adopt in the terms of reference of the Audit Committee the same governance arrangements requiring that a related party transaction be approved by the Audit Committee or, failing which, a majority of the independent non-executive directors ("**INEDs**").

1.4.2 From Admission, the Listing Rules of the UK Listing Authority will govern the entry into related party transactions by the Company. Unless the transaction is small or of a customary nature, prior approval of at least 50 per cent. of the Company's independent Shareholders will be required for related party transactions, in respect of which a detailed circular will be sent to Shareholders and the relevant agreement will be made available for inspection.

1.4.3 Therefore, the New Articles do not contain provisions relating to related party transactions.

1.5 ***Matters requiring Shareholder approval***

1.5.1 Currently, the Articles provide that the Company must receive 75 per cent. Shareholder approval for: (i) significant business changes; (ii) acquisitions and disposals above £20 million that are outside the ordinary course of business; and (iii) a merger or sale of substantially all of the Company's business.

1.5.2 From Admission, the Listing Rules will require prior approval of at least 50 per cent. of the Company's Shareholders for significant transactions – generally, this means large transactions by reference to the relative size or profitability of the Company versus the asset or business being acquired or disposed of, as well as certain specific types of transaction. Where Shareholder approval is required, a detailed Shareholder circular will need to be sent to Shareholders containing information on the proposed transaction, with the relevant agreement being made available for inspection in advance.

1.5.3 Other smaller (but still significant) transactions will need to be announced to the market with mandatory content requirements for such announcements.

1.5.4 Therefore, the New Articles do not contain provisions relating to significant transactions.

1.6 ***Information rights***

1.6.1 The New Articles will not contain information rights for Shareholders and, as a result, Shareholders will no longer have a right to receive quarterly financials (as only annual and half year information is required to be disclosed by listed companies). Shareholders will receive the same information (and at the same time) that is disclosed to the market as a whole.

1.6.2 The Company will no longer be able to provide copies of business plans or budgets to Shareholders or provide information to Shareholders on a selective basis. Any significant information that arises in relation to the Company will need to be communicated as soon as possible to the market as a whole.

2 Corporate governance

2.1 *The Code*

2.1.1 The UK Corporate Governance Code (the "**Code**") contains best practice recommendations for UK listed companies. The Code constitutes guidance rather than law but the Listing Rules require premium listed companies (as the Company will be) to either comply with the Code and describe in its annual report how it has done so or, if it has not complied, provide a reasoned explanation as to why it has not done so.

2.1.2 The main principles of the Code deal with the topics of leadership, effectiveness, accountability, remuneration and relations with shareholders. The Code sets out guidelines on the composition of boards and board committees and the duties of directors (and, in particular, the Chairman, senior independent director and other non-executive directors).

2.1.3 The Board is committed to the highest standards of corporate governance. From Admission, the Board intends to comply with the requirements of the Code. The Company will report to Shareholders on its compliance with the Code in accordance with the Listing Rules.

2.2 *Board Composition and Roles of Directors*

2.2.1 The Code emphasises the importance of boards having an appropriate balance between executive and non-executive directors (and, in particular, INEDs). It provides that at least half the board (not including the Chairman) should comprise INEDs (this had been a requirement of the Articles in any case).

2.2.2 The Code also provides that the roles of Chairman and Chief Executive Officer should be separate and that there should be a clear division of responsibilities between the two positions.

2.2.3 The Code focuses on leadership, in particular, the role of the Chairman in heading up the board and the responsibility of the non-executive directors to provide constructive challenge and help develop strategy. The senior independent director should act as a sounding board for the Chairman and as an intermediary for other directors, as necessary.

2.2.4 Since 2010, the Code has required directors to be put up for re-election annually and, as a result, re-election resolutions for each director have become part of the ordinary business at annual general meetings. The Company intends to comply with this requirement.

2.3 *Remuneration*

2.3.1 Shareholders of listed companies have a binding vote on remuneration policy at the annual general meeting at least every three years and have an annual advisory vote on directors' pay in the preceding year. Metro Bank's current Directors' Remuneration Policy is set out in Annex I of Appendix III – Private Placement Memorandum of this Circular and will be subject to a Shareholder vote at the 2017 annual general meeting.

2.3.2 The Directors' Remuneration Policy mainly focuses on the components of, and criteria applicable to, the remuneration of the Executive Directors but also describes the fee arrangements for Non-Executive Directors.

2.3.3 Detailed disclosure in relation to remuneration will be required to be contained in the annual report.

2.3.4 In addition to these statutory requirements, the Code emphasises the need for performance-related pay to be aligned with the long-term interest of the company and its risk policies and systems. The use of non-financial metrics to measure performance is recommended, if appropriate, and companies should consider clawing back variable pay in certain circumstances.

2.4 ***Relations with Shareholders***

2.4.1 The Code provides that there should be a dialogue with shareholders based on the mutual understanding of objectives and that it is the responsibility of the board as a whole to ensure that this happens. The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

2.4.2 The board should use general meetings to communicate with investors and to encourage their participation. Where a significant proportion of votes are cast against a resolution at a general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.

3 Disclosure of significant holdings

3.1 From Admission, a public disclosure obligation will be triggered under the UK Disclosure and Transparency Rules ("**DTRs**") where a Shareholder reaches, exceeds or falls below a holding of 3 per cent. or more of the voting rights attached to the Shares (or of financial instruments from which a similar economic effect is derived). Once this obligation has been triggered, the Shareholder will be required to make further disclosures for any percentage point change in the holding.

3.2 Any such notification is made in the first instance to the Company, which is, in turn, required to make a market announcement of the notification.

3.3 The rules in relation to calculations for the purposes of DTR disclosure are complex (and include rules relating to aggregation of different holdings), and any Shareholder to whom this may apply should consult with his or her own adviser to ensure that he or she is in compliance with the rules.

4 Certain transfer procedures that will apply following Admission

As the Company is currently unlisted, the Existing Shares are all held in certificated form, i.e. represented by share certificates. Once the Company becomes listed, it will be possible to hold Shares in uncertificated (or dematerialised) form in the UK CREST system (subject to the information set out below in relation to New Shares). This means that such Shares would exist in electronic form only, making trading easier and quicker and avoiding issues with lost or damaged share certificates. The process to convert certificated shares into dematerialised shares is known as dematerialisation and is explained in paragraph 5 of this Part IV (*Shareholder Information*).

4.1 ***Transfers of Existing Shares***

4.1.1 The Existing Shares are subject to restrictions on transfer as set out in the Articles. As noted above, if the adoption of the New Articles is approved by Shareholders at the General Meeting, then the restrictions that currently apply to transfers of Existing Shares will fall away and, from Admission, the Existing Shares will be freely transferable.

4.1.2 Shareholders may deliver the share certificates representing Existing Shares to their broker in order to have such Shares dematerialised and credited to an account in such Shareholder's (or its nominee's) name in CREST, after which such Shares will be eligible from Admission for trading through CREST on the London Stock Exchange. See paragraph 5 of this Part IV (*Shareholder Information*) for further information on this process.

4.2 *Transfers of New Shares*

4.2.1 New Shares sold to Shareholders *outside the United States* will be credited to each Shareholder's (or its nominee's) account in dematerialised form (except where Shareholders do not provide CREST account details or choose on their Application Forms to receive certificated Shares). These New Shares can be resold without restriction from Admission.

4.2.2 New Shares sold to Shareholders *in the United States that are "qualified institutional buyers"* (as defined in Rule 144A of the Securities Act) ("**QIBs**") will be credited to such Shareholder's or its nominee's account in dematerialised form (except where Shareholders do not provide CREST account details or choose on their Application Form to receive certificated Shares).

4.2.3 Such New Shares will be deemed "restricted securities" (as defined in Rule 144 of the Securities Act). Accordingly, such Shareholders will be required to undertake and agree that for so long as such Shares are "restricted securities" (which will be for a minimum one-year period from the date of Admission), they will only re-offer, resell or transfer the New Shares outside the United States in accordance with Regulation S under the Securities Act.

4.2.4 New Shares issued in dematerialised form will be eligible for trading through CREST on the London Stock Exchange. Conditional trading in Shares on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 24 February 2016 with Admission expected to take place on or about 29 February 2016. All dealings in the Shares prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

4.2.5 New Shares that are sold to Shareholders *in the United States that are not QIBs* will be delivered in certificated form. Such New Shares will be deemed "restricted securities" (as defined in Rule 144 of the Securities Act). For so long as such New Shares are "restricted securities" (which will be for a minimum one-year period from the date of Admission) such New Shares may only be re-offered, resold or transferred outside the United States in accordance with Regulation S under the Securities Act.

4.2.6 New Shares in certificated form will not be eligible for trading through CREST on the London Stock Exchange. Shareholders that hold Shares in certificated form are, therefore, advised to speak to their brokers in advance of executing a sale or transfer of their Shares in order to arrange for such Shares to be dematerialised and held through CREST.

5 Procedure for dematerialisation of Shares[2]

5.1 From the time of Admission (expected to be 8.00 a.m. (London time) on 29 February 2016), the Shares will be enabled in CREST. Shareholders can begin the process to dematerialise their Existing Shares in

---

[2] Where dematerialisation is permitted as explained in paragraph 4.2.

advance of Admission (subject to paragraph 4 of this Part IV (*Shareholder Information*)) so that they can be held and traded through CREST.

5.2 Shares can only be held in CREST in a specific CREST account. Certain Shareholders may have their own CREST accounts which they could use for this purpose or, alternatively, Shareholders' brokers may be able to hold their Shares as nominee for the Shareholder in the broker's CREST accounts.

5.3 If you already have a CREST account, then you would need to apply to have your Shares dematerialised into this account by completing a CREST Dematerialisation Request Form (available from the Company or the Registrar) and returning the form to the Registrar, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom, together with the certificate(s) representing your Shares.

5.4 If you wish to hold your Shares in the CREST account of your broker or other nominee, then you would have to transfer the Shares into your broker or nominee's CREST account by completing a CREST transfer form (available from this link: CREST Transfer Form). The CREST Transfer Form should then be returned to your broker for delivery to the Registrar, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom, together with the certificate(s) representing your Shares.

5.5 Once Shares are held in CREST they can be transferred electronically through the CREST system.

6 Tax considerations

Certain tax considerations relating to the Transaction that will be relevant to U.S. and UK Shareholders are set out in Part XX (*Taxation*) of Appendix III – Private Placement Memorandum. This information is intended only as a general guide to the current UK and U.S. tax positions applicable to holders of Shares. Shareholders are advised to consult with their own independent professional tax advisers prior to participating in the Offers.

PART V
DETAILS OF THE OFFERS

1 Offers

20,833,333 New Shares will be offered for subscription in the first instance to Qualifying Shareholders at the Offer Price and in proportion (as nearly as may be without involving fractions) to the nominal amount of Shares held by each Shareholder at the Record Date. Subject to demand, Qualifying Shareholders will then also have the option to subscribe for additional New Shares at the Offer Price and in proportion (as nearly as may be without involving fractions) to the nominal amount of Shares held by them, respectively, at the Record Date pursuant to the Top-Up Offer in respect of up to an additional 4,166,666 New Shares in total. Metro Bank may issue a lower number of New Shares in the Top-Up Offer, in which case Shareholders' Top-Up Offer Entitlements would be reduced accordingly or it may decide not to proceed with the Top-Up Offer, in which case Shareholders would no longer have a Top-Up Offer Entitlement.

Qualifying Shareholders who apply for their full Offer Entitlements will also have the option to subscribe at the Offer Price for any New Shares not taken up by other Qualifying Shareholders pursuant to the Offers. The allocation of any such remaining New Shares will be at the sole discretion of Metro Bank, and Metro Bank reserves the right to reject (in whole or part), or to scale down or limit, any application for such New Shares.

No Shareholder will be obliged to take more than the number of New Shares for which such Shareholder has applied under the Offers.

A Shareholders' pre-emption rights will be respected in full in relation to applications under the Offer and (to the extent that New Shares are issued under the Top-Up Offer) under the Top-Up Offer. For Qualifying Shareholders who do not elect to participate in the Offer and/or the Top-Up Offer, this could result in a significant reduction in the percentage of such Shareholder's ownership interest in Metro Bank.

Closing of the Offers is conditional on Admission and the adoption of the New Articles. With effect from Admission, certain of the B Shares will convert into Shares as described in Part VII (*Conversion of B Shares*) and the Company will have a single class of ordinary share in issue. The New Shares will be issued subject to the New Articles, credited as fully paid, and will be identical to and rank *pari passu* in all respects with other Shares already in issue, including for all dividends and distributions declared, paid or made on the Shares after the date of allotment of the New Shares.

Subscription Amounts will be required to be paid in Pounds Sterling in cleared funds into the Subscription Account on or before 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its absolute discretion determine).

The Subscription Account will be held at Metro Bank and, therefore, during the period between the Payment Date and the allocation of the New Shares (or the return of Subscription Amounts on or about 8 March 2016 in respect of applications for New Shares in excess of a Shareholder's Offer Entitlements or if the Transaction does not proceed), investors will not benefit from the protection that they might otherwise have received if the Subscription Amounts were held by a third party during this period.

Metro Bank reserves the right to withdraw the availability of the Offers at any time in its sole discretion. Although it is anticipated that the Offers will raise at least approximately £500 million, the Company may proceed with the Transaction, provided that at least £400 million is raised.

Further information about the application process and the Subscription Terms and Conditions are set out in Part VI (*Application Instructions and Procedures*) and Part VII (*Subscription Terms and Conditions*).

2 Placement of New Shares to new investors

Any New Shares not taken up by Qualifying Shareholders under the Offers will be available for subscription by new investors. Such New Shares will be allotted at the Offer Price, on such terms (not being more favourable than the terms of the Offers) and in such manner and to such persons as the Board may think fit, subject to the Articles and any legal requirements applicable to such allotment. The Board reserves the right to reject in whole or part, or to scale down or limit, any application by any new investor. Such allotment is expected to occur at the same time as the allotment of New Shares to Qualifying Shareholders under the Offers.

On 26 January 2016, Goldman Sachs International, Merrill Lynch International and RBC Europe Limited (trading as RBC Capital Markets) ("RBC") (together, the "**Private Placement Advisers**") and Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods) ("**KBW**" or the "**Co-Private Placement Adviser**") entered into an engagement letter with the Company (the "**Engagement Letter**") pursuant to which they agreed to act as private placement advisers and co-private placement adviser, respectively, to the Company in relation to the placement of New Shares to new investors and RBC agreed to act as the Company's sponsor in relation to Admission. In advance of Admission it is intended that the Company will enter into a Sponsor Agreement with RBC.

The Private Placement Advisers and the Co-Private Placement Adviser will receive a placement advisory fee from the Company of 2 per cent. in respect of Shares allocated in the Offers to investors procured by the Private Placement Advisers and the Co-Private Placement Adviser and a 0.25 per cent. transaction management fee in respect of the remainder of the Shares allocated in the Offers (of which £100,000 will be paid to Moelis & Company UK LLP (which is also advising the Company in relation to the Transaction), with the remaining 85 per cent. to be shared equally among RBC, Merrill Lynch International and Goldman Sachs International, 10 per cent. to be paid to KBW and 5 per cent. to be allocated at the discretion of the Company).

The Engagement Letter contains certain warranties, representations and indemnities given by the Company in favour of the Private Placement Advisers and the Co-Private Placement Adviser.

The appointment of the Private Placement Advisers and the Co-Private Placement Adviser under the Engagement Letter may be terminated by the mutual written agreement of the Company, the Private Placement Advisers and the Co-Private Placement Adviser at any time. The Company may unilaterally terminate the appointment of the Private Placement Advisers or the Co-Private Placement Adviser and the Private Placement Advisers or the Co-Private Placement Adviser may unilaterally resign, on prior written notice.

3 Dealing arrangements

Application has been made to the FCA for the Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

It is expected that Admission will take place and unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 29 February 2016. Prior to Admission, it is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange on 24 February 2016. All dealings in the Shares between the commencement of conditional dealings and the commencement of unconditional dealings will be on an "if-and-when issued" basis. If Admission does not become unconditional in all respects, any such dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

It is intended that New Shares allocated to investors who are able to hold shares in uncertificated form will take place through CREST on Admission. It is intended that, where applicable, definitive share certificates in respect of the New Shares will be distributed from 8 March 2016 or as soon as practicable thereafter. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the person concerned.

4 CREST

CREST is a paperless settlement system in the UK enabling securities to be evidenced otherwise than by a certificate and to be transferred otherwise than by a written instrument. With effect from Admission, the Articles will permit the holding of Shares under the CREST system. The Company has applied for the Shares to be admitted to CREST with effect from Admission.

CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so. Unless you elect on your application form to receive your New Shares through the CREST system, you will receive a share certificate representing your New Shares. Shareholders outside the United States and Shareholders in the United States that are QIBs applying for Shares may, however, elect to receive Shares in uncertificated form if they are system-members (as defined in the Uncertificated Securities Regulations) in relation to CREST. Shareholders should refer to paragraphs 4 and 5 of Part IV (*Shareholder Information*) for further information on the process for dematerialisation of their Shares into the CREST system and restrictions that may apply to their ability to do so.

PART VI
APPLICATION INSTRUCTIONS AND PROCEDURES

The procedures contained in this Part VI (*Application Instructions and Procedures*) apply to all Qualifying Shareholders, unless Metro Bank otherwise agrees. Metro Bank shall be entitled to vary the terms in this Part VI (*Application Instructions and Procedures*) in respect of any Qualifying Shareholders in its absolute discretion.

Only Qualifying Shareholders can apply to subscribe for New Shares. Qualifying Shareholders may only apply once and Qualifying Shareholders who submit two or more Application Forms may have their Application Forms rejected.

Qualifying Shareholders wishing to apply to subscribe for New Shares must complete the following steps during the Offer Period in order for their Application Form to be considered:

Step One – Completing and Submitting the Application Form

If you wish to subscribe for New Shares in the Offers, you will need to complete and send back the Application Form confirming your commitment to subscribe for the indicated number of New Shares under the Offers. By doing so, you will give an initial commitment to Metro Bank to subscribe for the relevant number of New Shares at the Offer Price and to pay to Metro Bank the necessary Subscription Amount to satisfy your subscription obligations.

Following publication of the Supplemental Private Placement Memorandum on or around 16 February 2016, you will be entitled to withdraw your commitment if you wish to do so by notifying the Company Secretary, Michael Brierley before 4.00 p.m. (London time) on the Payment Date.

From the Payment Date until Admission, if we provide to you supplementary disclosure, including by way of: (i) identifying information that is in the prospectus published in connection with Admission that was not included in the Private Placement Memorandum or any supplement thereto; or (ii) a supplementary prospectus, you will be allowed, for a period of time to be notified to you, to cancel your subscription for Shares in the Offers. In such event, the Closing Date and the date of Admission may change.

The Application Form should be returned to the Company Secretary, Michael Brierley, Metro Bank, One Southampton Row, London WC1B 5HA so as to arrive no later than 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its absolute discretion determine).

The Application Form must be completed, executed and submitted correctly or it may not be accepted. If you have any questions about how to complete, execute and submit the Application Form, please contact the Company Secretary, Michael Brierley.

Step Two – Payment of the Subscription Amount

For Shareholders wishing to subscribe for New Shares in the Offers, the Subscription Amount must be paid in Pounds Sterling in cleared funds into the Subscription Account on or before 4.00 p.m. (London time) on the Payment Date (or such later time and date as the Board may in its absolute discretion determine).

Qualifying Shareholders must make payment of the Subscription Amount by wire transfer to the Subscription Account (payment instructions to clearly mention your name and the amount of funds that are payable, net of any bank charges and so as to ensure that cleared funds in Pounds Sterling are received on or before 4.00 p.m. (London time) on the Payment Date).

The table below sets out the information that will need to be included with your payment instruction:

Payment type:				**Requirements:**		
	SWIFT BIC CODE	**IBAN**	**SORT CODE**	**ACCOUNT NUMBER**	**BENEFICIARY ACCOUNT NAME**	**REFERENCE**
UK Faster Payment	N/A	N/A	23-05-80	10842921	Metro Bank PLC Subs	Shareholder name
UK CHAPS	N/A	N/A	23-05-80	10842921	Metro Bank PLC Subs	Shareholder name
International Payment (GBP only)	MYMBGB2L	GB25MYMB23058010842921	N/A	N/A	Metro Bank PLC Subs	Shareholder name

Step Three – Confirmation of allocation

Qualifying Shareholders will be notified on 23 February 2016 as to whether their application has been accepted in whole or in part.

If the total number of additional New Shares applied for exceeds the number of New Shares available for subscription following the satisfaction of all subscriptions under the Offers (including where a decision is made not to proceed with an offering of the maximum number of New Shares in the Top-Up Offer), Metro Bank may, in its absolute discretion, reject, scale down or limit any application for additional New Shares.

In the event that an application is rejected in whole or in part, any Subscription Amount paid or the balance thereof will be returned to the Qualifying Shareholder in Pounds Sterling to the account details already supplied by the Qualifying Shareholder to Metro Bank, at the risk and cost of the Qualifying Shareholder and without accounting for interest by no later than 8 March 2016.

All Qualifying Shareholders, as applicable, authorise and instruct Metro Bank to refund all or part of Subscription Amounts by returning the funds to the bank account (details of which have been supplied by the Qualifying Shareholder to Metro Bank).

PART VII
SUBSCRIPTION TERMS AND CONDITIONS

In the case of a joint application, references to "you" in these Subscription Terms and Conditions are to each of you, and your liability is joint and several. References to Metro Bank's "advisers" in these Subscription Terms and Conditions shall, where the context permits, include the Private Placement Advisers and the Co-Private Placement Adviser.

No person receiving a copy of this Circular (each reference to which, for the avoidance of doubt, includes the Private Placement Memorandum appended to the Circular) or the Application Form in any jurisdiction may treat the same as constituting an invitation to such person to acquire, subscribe for or purchase New Shares, nor should such person, in any event, acquire, subscribe for or purchase New Shares, unless such an acquisition, subscription or purchase complies with any registration or other legal requirements in the relevant territory. The Subscription Terms and Conditions may vary depending on the jurisdiction of the potential investor.

Metro Bank reserves the right to modify the Subscription Terms and Conditions in its sole discretion and reserves the right to withdraw the availability of either or both of the Offers at any time in its sole discretion.

By completing and delivering an Application Form in which you indicate that you wish to subscribe for or purchase New Shares, you, as the Qualifying Shareholder or the nominee of a Qualifying Shareholder (and, if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation) amongst other terms and conditions that may be set out in the Application Form:

Reliance on document only

(a) confirm that you have received a copy of this Circular and have read and understand this Circular and agree that your application is made exclusively on the basis of, and subject to the terms of, the New Articles, the Application Form and this Circular, the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular in the form provided or made available to you prior to execution of the Application Form and that you will be bound by the Application Form (subject to any amendments agreed to in writing by you and the Company) and, upon becoming a Shareholder (if you are not already), you will be bound by such New Articles, together with all amendments and modifications to the New Articles properly made from time to time;

(b) confirm that in making your application, neither you nor any person on whose behalf you are applying, are relying on any information or representation in relation to Metro Bank other than the information contained in this Circular (save as permitted in paragraph (c) below) and, accordingly, you agree that no person responsible solely or jointly for this Circular, the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular or any part thereof or involved in the preparation thereof shall have any liability for any information other than the information contained in this Circular;

(c) understand that unless you withdraw your application for Shares prior to 4.00 p.m. on the Payment Date, you will be deemed to have: (i) read the Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto or to the Private Placement Memorandum or to this Circular issued prior to the Payment Date; and (ii) acknowledged that your investment decision is based upon the Private Placement Memorandum, read together with the Supplemental Private Placement Memorandum, and any supplements thereto;

(d) confirm that in making your application, neither you nor any person on whose behalf you are applying, are relying on any representation to you, express or implied, with respect to the merits of your decision to acquire New Shares;

(e) acknowledge and agree that this Circular has been, and the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular will be, prepared and provided to you by Metro Bank for your reference and are the sole responsibility of Metro Bank. Accordingly, you understand and acknowledge that none of Metro Bank's agents or advisers accept responsibility for or make any representation or give any warranty, express or implied, with respect to: (i) the accuracy, reliability or completeness of; (ii) the suitability for your purposes of; or (iii) the reasonableness of the grounds on which any assumptions are contained in, any information (including the Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular), whether written or oral, provided to you by Metro Bank, the Directors or any of Metro Bank's agents or advisers in connection with your investment in the New Shares, and you will not hold Metro Bank's agents or advisers responsible or liable for any misstatements in or omission from this Circular or the Supplemental Private Placement Memorandum or any other supplement thereto or to this Circular;

(f) understand and acknowledge that any information, whether written or oral, provided to you by Metro Bank, the Directors or any of Metro Bank's agents or advisers in connection with your investment in the New Shares may contain certain projections, forecasts or forward-looking statements with respect to the business, strategy or plans of Metro Bank, and expectations as to the future financial condition and performance of Metro Bank. You understand and acknowledge that (i) by their nature, projections, forecasts and forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and (ii) neither Metro Bank nor any of its agents or advisers makes any representation and gives no warranty, express or implied, that any such projections, forecasts or forward-looking statements will be realised;

(g) confirm that in making your application, neither you nor any person on whose behalf you are applying, are relying on any illustrative calculations, whether written or oral, communicated to you by Metro Bank or any of its agents or advisers that could be made by an investor in determining the value or projected value of Metro Bank's share capital. You acknowledge and understand that any such figures should not be relied upon as forecasts of actual future financial performance or present or future value;

(h) confirm that in making your application, you have not relied on any information regarding the Company or its Directors contained or included in any press articles or other source of public communication;

(i) understand and acknowledge that no information, whether written or oral, provided to you by Metro Bank, the Directors or any of Metro Bank's agents or advisers in connection with your investment in the New Shares shall be deemed to constitute investment advice or a recommendation for you to subscribe for the New Shares, or be an assurance or guarantee as to the expected return, or any return, following the subscription for the New Shares, or advice or representations with regard to your tax position or that of Metro Bank;

(j) understand and acknowledge that none of Metro Bank's advisers will treat you as their customer by virtue of your subscription being accepted, or owe you any duties or responsibilities concerning the price of the New Shares or the suitability for you of the New Shares, or be responsible to you for providing the protections afforded to their customers. In particular, each of the Private Placement Advisers and the Co-Private Placement Adviser is acting as private placement adviser in relation to the placement of New Shares to new investors and providing other assistance to the Company in respect of the Private Placement, but is acting solely for the Company and no-one else in relation to the Private Placement and in doing so, is not acting as bookrunner or financial adviser to any person in respect of the Private Placement;

(k) agree that you will not duplicate or furnish copies of this Circular, the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular, or divulge any of its contents, to any person other than your investment, legal or tax adviser (who may use the information contained in the document solely for purposes related to your investment in Metro Bank);

(l) acknowledge that you have had sufficient opportunity to read this Circular , the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular, and agree to be deemed to have had notice of all information and representations concerning Metro Bank and the New Shares contained herein;

(m) confirm that, in deciding to sign the Application Form and offer to subscribe for New Shares, you have not relied on, and hereby waive (to the extent permitted by law) all claims that you may have in relation to, any statement, representation or undertaking of Metro Bank, the Directors or any of Metro Bank's agents or advisers, other than those statements made by Metro Bank as set out in the Application Form, the Articles and this Circular, the Supplemental Private Placement Memorandum and any other supplement thereto or to this Circular;

Capacity and compliance with laws

(n) represent and warrant that you have the power, legal capacity and authority, and are permitted by applicable law to acquire and hold the New Shares and to execute, deliver and comply with the terms of the Application Form, and that such execution, delivery and compliance does not conflict with, or constitute a default under or violation of, any instrument governing you or any agreement to which you are a party or by which you or your assets may be bound, and if you sign the Application Form on behalf of somebody else or on behalf of a corporation, trust or other corporate entity, you have due authority to do so on behalf of that other person or entity, and such person or entity will also be bound accordingly and will be deemed also to have given the confirmations, warranties, undertakings and authorities contained herein and undertake to enclose your duly certified and notarised power of attorney, and a copy of the same, together with all other documents required to be submitted with your Application Form;

(o) represent and warrant that:

(i) for persons in the UK, you are:

1. a person having professional experience in matters relating to investments, being investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) ("**FPO**"));

2. a person falling within Article 49(2)(a) to (d) of the FPO (including high net worth companies and unincorporated associations); or

3. a person to whom the communication may otherwise lawfully be made and, in each case, you were not offered the New Shares inside the United States and the Application Form was not signed by you in the United States;

(ii) for residents of the United States, you:

1. are an "accredited investor" as such term is defined in Rule 501(a) of Regulation D under the Securities Act, and you are acquiring the New Shares for your own account or for the account of an accredited investor as to which you exercise sole investment discretion and not with a view to any resale, distribution or other disposition of the New Shares in violation of United States federal or state securities laws;

2. are aware that the New Shares have not been registered under the Securities Act or any state securities laws and that the offer and sale of the New Shares to you is being made in reliance on an exemption from the registration requirements under the Securities Act;

3. understand that if you decide to offer, sell, pledge or otherwise transfer any of the New Shares, such New Shares may be offered, sold, pledged or otherwise transferred if prior to the date that is one year after the later of the date of original issue and the last date on which the Company or any affiliate of the Company (or any predecessor thereto) was the owner of such New Shares, only outside the United States in accordance with Regulation S, and in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction; that the New Shares will be "restricted securities" within the meaning of Rule 144 under the Securities Act; that the Company reserves the right prior to any registration of transfer of any resale or other disposition of New Shares to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company; and that the Registrar will not be required to accept for registration of transfer any New Shares, except upon presentation of evidence satisfactory to the Company and the Registrar that the foregoing restrictions on transfer have been complied with;

4. understand that upon the original issuance thereof, and until such time as the same is no longer required under applicable requirements of the Securities Act or applicable state securities laws or as otherwise determined by the Company and/or the Registrar, definitive certificates representing the New Shares, and all definitive certificates issued in exchange therefor or in substitution thereof, shall bear a legend to the effect set forth in the immediately preceding paragraph (3); and

5. acknowledge that you have not purchased the New Shares as a result of any general solicitation or general advertising (as such terms are defined in Regulation D under the Securities Act); or

(iii) for persons resident in the European Economic Area, you are:

1. a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (as amended by Directive 2010/73/EU); or

2. a person to whom the communication may otherwise lawfully be made and, in each case, you were not offered the New Shares inside the United States and the Application Form was not signed by you in the United States;

(p) represent and warrant that you have made your own independent investigation and assessment of the legal, accounting, tax, business and other ramifications of acquiring the New Shares, and as to the condition, financial or otherwise, of the Company and as to any other matter relating thereto or in connection therewith, and have made or will make your own investment decisions based upon your own judgement, due diligence and the advice (if any) from such advisers as you have deemed necessary and, in particular, you and your advisers have read, understand and unconditionally agree to take on all the risks included in Part II (*Risk Factors*) of Appendix III – Private Placement Memorandum;

(q) represent and warrant that you have such knowledge and experience in financial and business matters that you are capable of evaluating the merits and risks of acquiring New Shares, including the risk of the total loss of your investment in the New Shares;

(r) confirm you are aware that: (i) investment in Metro Bank involves a high degree of risk; and (ii) no governmental agency or regulatory authority has made any finding or determination as to the fairness for investment by the public in, nor has made any recommendation or endorsement of, the New Shares;

(s) represent and warrant that you are acquiring the New Shares for your own account and have no intention, arrangement or understanding to distribute the New Shares;

(t) represent and warrant that, if you are an individual, you are over the age of 21 and have the legal capacity to complete the Application Form;

(u) represent and warrant that all consents required to be obtained by you and all legal requirements necessary to be complied with or observed by you in order for the Application Form and the allotment and issuance of New Shares to you to be lawful and valid under the laws of any jurisdiction to which you or your assets are subject have been obtained, complied with and observed and the Application Form shall be, and upon acceptance of the application by Metro Bank in whole or in part shall continue to be, enforceable against you in accordance with its terms;

(v) confirm that you are not party to any agreements or arrangements which would have the effect of making you a "controller" (whether on the basis of acting in concert, deemed holdings or voting power or otherwise) of Metro Bank for the purposes of Part XII of the FSMA;

Acceptance of applications

(w) agree to subscribe for the number of New Shares specified in the Application Form (or such lesser number for which your application is accepted by Metro Bank) at the Offer Price under the Offer and, where relevant, the Top-Up Offer;

(x) agree to pay in full your Subscription Amount in the manner described in Step Two in Part VI (*Application Instructions and Procedures*) on or before 4.00 p.m. (London time) on the Payment Date;

(y) agree that if you fail to pay your Subscription Amount in the manner described in Step Two in Part VI (*Application Instructions and Procedures*) on or before 4.00 p.m. (London time) on the Payment Date, you will forfeit your right to subscribe for or purchase New Shares and you indemnify Metro Bank for any loss associated therewith;

(z) understand that Metro Bank reserves the right to reject in whole or part, or to scale down or limit, any application for New Shares over and above your Offer Entitlements and to scale down your Top-Up Offer Entitlement to reflect any corresponding scaling down of the Top-Up Offer. Metro Bank may treat applications as valid and binding even if they are not made in all respects in accordance with the prescribed instructions and the Application Form and that, if any application is not accepted in full, the whole or relevant part of any Subscription Amount paid, will be returned to the account, details of which have been provided by the Qualifying Shareholder to Metro Bank at your own risk and with no interest payable thereon;

(aa) agree that, in consideration of Metro Bank agreeing to process and consider your application, your application cannot be revoked following payment of the Subscription Amount unless Metro Bank publishes thereafter supplementary disclosure, including by way of: (i) material information in the prospectus published in connection with Admission that was not included in the Private Placement Memorandum, the Supplemental Private Placement Memorandum or any supplement thereto; or (ii) a supplementary prospectus, in which case, you will be allowed, for a period of time, to be notified to you, to cancel your subscription for Shares in the Offers;

(bb) acknowledge that, without Metro Bank's consent, you shall not be entitled to renegotiate or avoid your subscription obligations or have them set aside;

(cc) acknowledge that you shall not be entitled to assign or transfer your subscription obligations;

(dd) acknowledge that to your knowledge there is nothing to prevent you or exclude you from subscribing for New Shares following receipt of confirmation of acceptance of your application in whole or in part subject to satisfaction of all relevant conditions;

Share certificates

(ee) subject to receipt of the Subscription Amount, authorise Metro Bank to send share certificate(s) in respect of the number of New Shares for which your application is accepted by Metro Bank to the address of the person (or, in the case of joint holders, the first-named person) named in the Application Form and to procure that your name (together with the name(s) of any other joint subscriber(s)) is/are placed on the register of Shareholders of Metro Bank in respect of such New Shares;

(ff) agree that all documents sent by post to you, by or on behalf of Metro Bank, to the address specified in the Application Form will be sent at your risk;

Anti-money laundering requirements

(gg) certify that the information given in the Application Form is true, accurate and complete and you acknowledge and agree that Metro Bank may request from you from time to time such additional information as it may deem necessary to decide whether to accept or reject your application and you agree to provide such information as may reasonably be requested;

(hh) consent to the passing on of any information about you to any relevant regulatory authorities by Metro Bank or their delegates to the extent required;

(ii) acknowledge that due to money laundering requirements operating within their respective jurisdictions, Metro Bank and/or one of its agents or advisers may require further identification of the subscriber(s) and source of funds before applications for New Shares can be processed and accepted or before Subscription Amounts can be returned to any account specified in the Application Form, and you hold Metro Bank and its respective agents and advisers harmless and indemnified against any loss arising from the failure to process your application for New Shares, if such information as has been required from you has not been provided within the allotted time to the satisfaction of the party requesting such information;

(jj) represent that the New Shares are to be purchased with funds that are from legitimate sources in connection with your regular business activities and which do not constitute the proceeds of criminal conduct within the meaning given in the Proceeds of Crime Act 2002 in the UK or in any other applicable anti-money laundering legislation and you agree to provide such further information and documentation as may be necessary for identification or other purposes pursuant to such anti-money laundering legislation;

(kk) acknowledge that you are: (i) not listed on the OFAC list of specifically designated nationals and blocked persons; (ii) not otherwise the target of economic sanctions administered by OFAC and (iii) not acting on behalf of any party that is on the OFAC list of specifically designated nationals and blocked persons or otherwise the target of economic sanctions administered by OFAC;

(ll) understand and agree that any funds to be returned to you will be returned in Pounds Sterling at your risk and without deduction (apart from any bank charges) or interest, unless Metro Bank agrees otherwise, and agree that any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity and/or source of funds required by Metro Bank and/or one of its agents or advisers;

Continuing obligations

(mm) acknowledge that each representation and warranty contained in the Application Form or made in writing by you in connection with the transactions contemplated by the Application Form shall survive the execution and delivery of the Application Form, the issue and allotment of New Shares to you and your admission (if you are not already) as a Shareholder;

(nn) will repeat these undertakings, representations and warranties to Metro Bank and each of its agents and advisers on submitting your Application Form, on the Payment Date and on the Closing Date and will provide on request such certificates, documents or other evidence as Metro Bank and/or one of its agents or advisers may reasonably require to substantiate such undertakings, representations and warranties;

(oo) will notify Metro Bank immediately if you become aware that any of these undertakings, representations and warranties are no longer accurate and complete in all respects, at any time up to completion of the Offers;

(pp) understand that, if any of these representations, warranties or undertakings given by you in these Subscription Terms and Conditions are untrue, Metro Bank in its sole discretion may require a retroactive redemption of all or part of your New Shares acquired pursuant to the Offers (save that the Company will not exercise such right so as to result in another person becoming a controller, unless appropriate approval of that person from the FCA has been obtained);

(qq) covenant to observe and comply fully and promptly with the provisions of the Articles while you are an owner of Shares and at all times to the intent and effect that each and every provision of the Articles shall be enforceable between Metro Bank and you from time to time in whatever capacity, notwithstanding that any such provision might not have been so enforceable in the absence of this paragraph (qq) of this Part VII (*Subscription Terms and Conditions*). You undertake that you will exercise your rights in Metro Bank (whether as a shareholder or otherwise) to procure (so far as you are able) that full effect is given to the provisions of the Articles;

Indemnity

(rr) agree to indemnify and hold harmless Metro Bank, the Directors, each of Metro Bank's agents and advisers and each of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof against any and all loss (including loss of profits, loss of reputation and consequential loss), liability, claim, damage and expense whatsoever (including, but not limited to, any and all expenses and costs (including attorneys' fees) reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based on:

(i) any false representation or warranty in connection with your Application Form or breach or failure by you to comply with any covenant or agreement made by you pursuant to the Application Form;

(ii) any action for securities laws violations instituted against you which is resolved by judgment against you; or

(iii) any failure by you to pay the Subscription Amount,

and agree that this indemnity shall apply whether or not Metro Bank, the Directors, each of Metro Bank's agents and advisers or any of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof has been negligent or at fault;

(ss) if you are acting as nominee, agent or trustee for a beneficial owner, you also agree to indemnify Metro Bank, the Directors, each of Metro Bank's agents and advisers and each of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof against any and all loss (including loss of profits, loss of reputation and consequential loss), liability, claim, damage and expense whatsoever (including, but not limited to, any and all expenses and costs (including attorneys' fees) reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) in connection with any damages resulting from the beneficial owner's assertion of lack of proper authorisation for you to enter into the Application Form or perform any obligations pursuant thereto and agree that this indemnity shall apply whether or not Metro Bank, the Directors, each of Metro Bank's agents and advisers or any of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof has been negligent or at fault;

Single application

(tt) represent and warrant that you have only submitted one Application Form in relation to the Offer, or that only one Application Form has been submitted on your behalf;

Confidentiality

(uu) acknowledge that you will receive or have access to confidential information concerning Metro Bank, including, without limitation, this Circular and the Supplemental Private Placement Memorandum ("**Confidential Information**"), and undertake that you shall not disclose or cause to be disclosed any Confidential Information to any person (save that you will be permitted to disclose any Confidential Information to your professional advisers, administrators and custodians) or use any Confidential Information for your own account, except in connection with your investment in Metro Bank or as otherwise required by any regulatory authority, law or regulation or by legal process. Furthermore, you agree that you may not reproduce, duplicate or distribute this Circular, any part hereof, the Supplemental Private Placement Memorandum or any supplement thereto or to the Private Placement Memorandum or the Application Form to any other person, except your professional advisers;

(vv) acknowledge that Metro Bank, its agents or advisers and any of their respective delegates may present the Application Form and the information provided in it to such parties (for example, affiliates, attorneys, auditors, administrators, brokers and regulators) as they deem necessary or advisable to facilitate the acceptance (or rejection) and management of your subscription for New Shares. Furthermore, it is agreed and acknowledged that any of them may be required to disclose such information to any regulator or other competent governmental or other authority or where otherwise required by law. You confirm that you understand that any such sharing or disclosure of information regarding you and/or your investment in the New Shares shall not constitute a breach of any duty or obligation of confidentiality owed to you by Metro Bank or by any of its agents or advisers and you consent to such sharing or disclosure of information regarding you or your investment in the New Shares;

Entire agreement

(ww) understand that these Subscription Terms and Conditions, the Application Form and all related terms, conditions and covenants shall be deemed to be given to and for the benefit of Metro Bank, its agents and advisers and their respective advisers and their respective successors, permitted assigns, executors, administrators and heirs, provided that, except as specifically contemplated herein, neither the Application Form nor any of the rights, interests or obligations arising pursuant hereto shall be assigned or delegated by you without the prior written consent of Metro Bank. The provisions of this Circular, the Supplemental Private Placement Memorandum, any other supplement thereto or to this Circular and the Application Form set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior and contemporaneous discussions, agreements and understandings among them as to the subject matter hereof; and

Choice of law and submission to jurisdiction

(xx) agree that the execution of the Application Form constitutes your irrevocable submission, in relation to all matters arising out of this Circular, the Supplemental Private Placement Memorandum and any other supplement thereto or to the Circular, or your subscription for the Shares, to the jurisdiction of the courts of England and Wales and your agreement that nothing shall limit the right of Metro Bank or any of its agents or advisers to bring any suit, action or proceeding arising out of or in connection with this Circular, the Supplemental Private Placement Memorandum and any other supplement thereto or to the Circular, or your subscription for the Shares in any other manner permitted by law or any court of competent jurisdiction. The Subscription Terms and Conditions and the Application Form shall be governed by and construed in accordance with the laws of England and Wales.

PART VIII
CONVERSION OF B SHARES

The B Shares were granted to management under a management incentive plan established in 2009. B Shares will convert into Shares on a listing of Metro Bank with an aggregate value at the Offer Price of £21.7 million. This represents the B Shareholders' entitlement to a pro rata share of the excess over a "hurdle rate" market capitalisation target of £75 million (being the capitalisation of the Company at the time the shares were awarded), escalated at 8 per cent. per annum. The B Shares will convert into 916,561 Shares representing 1.07 per cent. of the issued share capital of Metro Bank on Admission.

This Part VIII (*Conversion of B Shares*) sets out the conversion process for the B Shares issued by the Company, some of which will convert into Shares on Admission in accordance with the provisions of the Articles.

Trigger for Conversion of B Shares

Admission will constitute a Realisation Event for the purposes of the Articles. If the Capitalisation Value on the date of Admission is equal to or greater than the Hurdle Price, the conversion process for the B Shares will be triggered.

"***Capitalisation Value***" means the market value of the Company by reference to Admission, excluding the proceeds of the Offers. The Capitalisation Value will be determined by reference to the Offer Price and will, therefore, be £1,420,984,608.

"***Hurdle Price***" means the £75 million proceeds of the placing undertaken by the Company in 2010, plus interest on that amount at a rate of 8 per cent. per annum (compounded annually on 31 December each year) from 29 July 2010 until but excluding the date of Admission, which equates to £116,758,372.

The Capitalisation Value on Admission will, therefore, be greater than the Hurdle Price and a proportion of the B Shares will convert to Shares on Admission, with the remainder converting to deferred shares which will then be cancelled.

Calculation of Conversion of B Shares

The Articles set out a formula by which B Shares will convert to Deferred B Shares (with the balance converting to Shares) as follows:

Number of B Shares that convert to Deferred B Shares = $\text{Number of B Shares} - \frac{\text{B Cap Value}}{\text{Price per A Share}}$

$$\textit{B Cap Value} = \frac{\text{Number of B Shares}}{\text{Number of A Shares} + \text{Number of B Shares}} \ (\text{Capitalisation Value} - \text{Hurdle Price})$$

$$\textit{B Cap Value} = \frac{1\ million}{59{,}207{,}692\ +1\ million}\, x\ (£1{,}420{,}984{,}608 - £116{,}758{,}372) = \ £21{,}662{,}120$$

$$\textit{Price per A Share} = \frac{\text{Capitalisation Value} - \text{B Cap Value}}{\text{Number of A Shares}}$$

$$\textit{Price per A Share} = \frac{£1{,}420{,}984{,}608\text{-}£21{,}662{,}120}{59{,}207{,}692} = £23.634$$

Number of B Shares that convert to Deferred B Shares = $1\ \text{million} - \frac{£21{,}662{,}120}{£23.634} = 83{,}439$

From a total of 1 million B Shares, 83,439 will convert to Deferred B Shares and 916,561 will convert to Shares, and this conversion ratio will be applied *pro rata* to each holder of B Shares based on their holdings at the date of Admission. In accordance with the Articles, the Board may deal with fractional shareholdings as it sees fit.

PART IX
SUMMARY OF NEW ARTICLES

It is proposed that the New Articles be adopted conditional upon Admission. The New Articles will be substantially in the form set out in Appendix II "*New Articles"* of this Circular and are summarised below in this Part IX (*Summary of New Articles*). The final version of the New Articles will be tabled at the General Meeting.

Shares

(a) *Share rights*

The Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if authorised by the Company, the Directors. The Company may issue redeemable shares with such terms and conditions as the Directors may determine.

(b) *Voting rights*

Where there is a vote on a show of hands, a Shareholder present at a meeting in person or by proxy has one vote. Where there is a poll, a Shareholder present in person or by proxy has one vote for every Share which they hold or represent. This is subject to any special rights or restrictions which are given to a class of shares and to the Articles. Unless the Directors resolve otherwise, no member shall be entitled to vote either in person or by proxy, or exercise any other right in relation to general meetings, if any call of other sum due from him to the Company in respect of that Share remains unpaid.

(c) *Variation of rights*

Subject to the provisions of the Companies Act, all or any of the rights attached to any class of Shares may from time to time be varied either with the consent in writing of the holders of not less than 75 per cent. in nominal value of Shares of that class (excluding Shares held as treasury shares) or by special resolution of the holders of those Shares.

(d) *Transfer of Shares*

The Shares shall be freely transferable. Transfers of certificated shares must be effected in writing and signed by or on behalf of the transferor. The Directors may decline to register any transfer of a certificated Share, unless the conditions set out in the articles are complied with. Transfers of uncertificated shares may be effected by means of a relevant system (i.e. CREST) unless the CREST Regulations provide otherwise.

(e) *Restrictions where notice not complied with*

Where the Company sends out a statutory notice under section 793 of the Companies Act requiring information about interests in Shares and the recipient of the notice fails to supply the information within the time specified in it, the Directors may take steps set out in the Articles, including, among others, preventing the recipient from attending or voting at a Shareholders' meeting.

(f) *Conditions governing the manner in which annual general meetings and general meetings are called*

An annual general meeting shall be held in the six-month period following the Company's accounting reference date, at such place or places, date and time as may be decided by the Directors. The Directors may, whenever they think fit, call a general meeting.

Notice of general meetings shall include all information required by the Companies Act and shall be given to all members entitled to receive such notices under the provisions of the Articles. The Board can specify in the notice of meeting a time by which a person must be entered on the share register in order to have the right to attend or vote at the meeting. The time specified must not be more than 48 hours before the time fixed for the meeting.

No business other than the appointment of a chairman shall be transacted at any general meeting, unless a quorum is present at the time when the meeting proceeds to business. Two members present in person or by proxy shall constitute a quorum.

The Directors may decide that a general meeting shall be held at two or more locations to facilitate the administration of such meeting or may require attendees to submit to searches or put in place such arrangements or restrictions as they think fit to ensure the safety and security of attendees at a general meeting.

Directors

(a) *General powers*

The Directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Companies Act or by the Articles to be exercised by the Company at a general meeting.

(b) *Number of Directors*

The Directors shall not be less than two or more than 12 in number, save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of Directors.

(c) *Share qualification*

The Directors are not required to hold any Shares.

(d) *Directors' fees*

Directors' fees are determined by the Directors from time to time, except that they may not exceed £3 million per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Shareholders. Directors who hold any executive office, or who serve on any committee of the Directors, or who otherwise perform services which in the opinion of the Directors are beyond the scope of the ordinary duties of a Director, may be paid extra remuneration as the Directors may determine.

(e) *Directors' retirement*

Each Director shall retire at the annual general meeting held in the third calendar year initially following listing and subsequently, or for Directors appointed after listing, at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company. Any Director who retires at an annual general meeting may offer himself for re-appointment by the Shareholders. In accordance with the Code, it is anticipated that each Director will be subject to annual election by Shareholders.

(f) *Removal of a Director by resolution of Company*

The Company may, by ordinary resolution of which special notice is given, remove any Director before the expiration of his period of office in accordance with the Companies Act, and elect another person in place of a Director so removed from office.

(g) *Proceedings of the Board*

The Board can decide when and where to have meetings and how they will be conducted. If no other quorum is fixed by the Board, two Directors constitute a quorum. A Board meeting at which a quorum is present can exercise all the powers and discretions of the Board. The Board can appoint and remove any Director as chairman or as deputy chairman. Matters will be decided by a majority vote. If votes are equal, the Chairman shall be entitled to a casting vote.

The Directors may delegate any of their powers or discretions, including those involving the payment of remuneration or the conferring of any other benefit to the Directors, to such person or committee and in such manner as they think fit.

(h) *Directors' interests*

In accordance with the Companies Act 2006, the Directors have the power to authorise matters giving rise to a breach of each Director's duty to avoid a situation in which he has an interest that conflicts (or might conflict) with the interests of the Company. The Articles set out the process through which this authorisation can be granted, as well as an exhaustive list of generally permissible interests for which specific authorisation is not required.

The Articles also provide that Directors have no voting rights in relation to matters in which they are interested and cannot count in the quorum at a meeting to consider a resolution on such a matter. There are limited exceptions such as where the Director's interest cannot reasonably by regarded as likely to give rise to a conflict of interest.

(i) *Restrictions on voting*

Subject to certain exceptions set out in the Articles, a Director cannot vote on, or be counted in a quorum in relation to, any resolution of the Board on any matter in which he has an interest and, if he does vote, his vote will not be counted. Subject to the Companies Act, the Shareholders may by ordinary resolution suspend or relax, to any extent, the provisions relating to Directors' interests or restrictions on voting.

(j) *Confidential Information*

If a Director obtains (otherwise than through his position as a Director) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence.

(k) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money, mortgage or charge all or any part or parts of its undertaking, property and uncalled capital, and issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(l) *Directors' liabilities*

As far as the Companies Act allows this, the Company can indemnify any Director or former Director of the Company or of any associated company against any liability and can purchase and maintain insurance against any liability for any Director or former Director of the Company or of any associated company.

Dividends

The Company may, by ordinary resolution, declare final dividends to be paid to the Shareholders. However, no dividend shall be declared, unless it has been recommended by the Directors and does not exceed the amount recommended by the Directors. The Directors may also pay interim dividends in amounts and on dates and periods as they think fit.

PART X
DEFINITIONS

The following definitions apply throughout this Circular and the Application Form, unless the context requires otherwise:

Admission	the admission of the Shares to listing on the Official List of the UK Financial Services Authority and to trading on the main market for listed securities of the London Stock Exchange plc.
Application Form	the application form which accompanies this Circular for use in connection with the Offers.
Articles	the articles of association of Metro Bank, as amended or replaced from time to time.
Business Day	a day (other than a public holiday) on which banks are generally open for business in the UK and the U.S.
Circular	this circular, including its appendices.
Closing Date	29 February 2016 or such later date as the Board may in its absolute discretion determine.
Companies Act	the Companies Act 2006.
Directors or **Board**	the directors of Metro Bank.
Existing Shares	Shares held by Shareholders on the Record Date.
FCA	the UK Financial Conduct Authority.
FSMA	the Financial Services and Markets Act 2000.
General Meeting	the general meeting of the Company to be held at One Southampton Row, London WC1B 5HA, London at 12 noon on 22 February 2016.
Metro Bank or **the Company**	Metro Bank PLC.
New Shares	Shares to be issued pursuant to the Offers.
OFAC	the U.S. Office of Foreign Assets Control.
Offer	the offer to Qualifying Shareholders to subscribe for New Shares up to an aggregate total of 20,833,333 New Shares at the Offer Price on the terms and subject to the Subscription Terms and Conditions and the Application Form.
Offer Entitlement	the entitlement of each Qualifying Shareholder to subscribe for 0.35 New Shares for every one existing Share held by such Qualifying Shareholder on the Record Date, pursuant to the Offer.
Offer Entitlements	the Offer Entitlement and Top-Up Offer Entitlement.
Offer Period	the period starting on the Opening Date and ending on the Payment Date (inclusive).
Offer Price	£24 per Share.
Offers	the Offer and the Top-Up Offer.
Opening Date	27 January 2016, being the first day on which completed Application

	Forms will be accepted by Metro Bank.
Payment Date	4.00 p.m. (London time) on 22 February 2016 or such later date as the Board may in its absolute discretion determine.
Pounds Sterling or **£**	the lawful currency for the time being of the UK.
Private Placement Memorandum	the private placement memorandum dated 26 January 2016 set out in Appendix III – *Private Placement Memorandum*.
PRA	the UK Prudential Regulatory Authority.
Qualifying Shareholders	holders of A Shares on the Company's register of members on the Record Date.
Record Date	Close of business on 22 January 2016.
Registrar	the Company's registrar Equiniti Limited at Aspect House, Spencer Road, West Sussex BN99 6DA, United Kingdom.
Shareholders	the person(s) who are registered as holders(s) of Shares from time to time.
Shares	A Ordinary Shares of 0.0001 pence each in the capital of Metro Bank, which, conditional on and from Admission, will be redesignated as Ordinary Shares of 0.0001 pence each in the capital of Metro Bank.
Subscription Account	the bank account with the following details: Account Name: METRO BANK SUBSCRIPTION ACCOUNT Account Number: 10842921 UK Sort Code: 23-05-80 International Bank Account Number (IBAN): GB25MYMB23058010842921 Beneficiary Bank BIC code: MYMBGB2L Correspondent Bank BIC code: BARCGB22
Subscription Amount	the aggregate price in respect of the New Shares subscribed for by a Qualifying Shareholder pursuant to the Offer and/or the Top-Up Offer, payable into the Subscription Account by the Payment Date.
Subscription Terms and Conditions	the terms and conditions of the Offers set out in Part VII *Subscription Terms and Conditions*.
Supplemental Private Placement Memorandum	the supplement to the Private Placement Memorandum to be published on or around 16 February 2016.
Top-Up Offer	an offer to Qualifying Shareholders to subscribe for additional New Shares up to an aggregate total of 4,166,666 New Shares.
Top-Up Offer Entitlement	the entitlement of each Qualifying Shareholder to subscribe for up to 0.07 New Shares for every one existing Share held by such Qualifying Shareholder on the Record Date, pursuant to the Top-Up Offer (subject to the final size of the Top-Up Offer).
Transaction	the Offers and Admission.
UK	the United Kingdom of Great Britain and Northern Ireland.

Uncertificated Securities Regulations the Uncertificated Securities Regulations 2001.

U.S. or **United States** the United States of America, its territories and possessions, and the states of the United States and the District of Columbia.

METRO BANK PLC

(A public limited company incorporated in England and Wales on 6 November 2007 with registration number 6419578)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a **GENERAL MEETING** of Metro Bank PLC (the "**Company**") will be held at One Southampton Row, London WC1B 5HA, London on 22 February 2016 at 12 noon to consider and, if thought fit, pass the following resolutions.

To resolve as a special resolution:

1 **THAT** the Transaction (as defined and described in the circular issued by the Company dated 26 January 2016 (the "**Circular**") be approved and that: (i) the directors of the Company (the "**Directors**") be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Companies Act 2006 (the "**Act**") to exercise all powers of the Company to allot shares in the Company and to make offers or agreements to allot shares or grant rights to subscribe shares or convert any securities into shares up to an aggregate nominal amount of £30 pursuant to the Offers (as defined in the Circular), which authority shall be in addition to the existing authority contained in the Company's articles of association (the "**Articles**"); (ii) the Directors be generally and unconditionally authorised to allot such shares as if Section 561(1) of the Act did not apply to any such allotment; and (iii) the procedural steps for the implementation of the Transaction as set out in the Circular be approved, and that this approval take effect as an amendment to the Articles to the extent that there is any inconsistency between the requirements of the Articles and the terms of the Transaction as set out in this Circular or the procedural steps for its implementation. The authority conferred by this resolution shall expire on 30 June 2016.

To resolve as a special resolution:

2 **THAT**, subject to and conditional upon the admission of the Company's issued ordinary share capital Shares to listing on the Official List of the UK Financial Services Authority and to trading on the main market for listed securities of the London Stock Exchange plc ("**Admission**") having occurred, the articles of association of the Company tabled at this meeting be approved and be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the Articles and the Company's A Ordinary Shares be redesignated as ordinary shares having the rights attached to them as set out in such new articles of association.

To resolve as an ordinary resolution:

3 **THAT**, subject to and conditional upon Admission having occurred, in place of any existing authority conferred upon them for the purpose of Section 551 of the Act, the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Act to exercise all powers of the Company

to allot and to make offers or agreements to allot shares or grant rights to subscribe shares or convert any securities into shares:

(i) up to an aggregate nominal amount of £28.37; and

(ii) up to a further aggregate nominal amount of £28.37 in connection with an offer by way of a rights issue.

Provided that this authority shall (unless previously revoked or renewed) expire on 21 February 2021 but so that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if the authority had not expired.

For the purposes of this Resolution and Resolution 4, 'rights issue' means an offer to:

(a) ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(b) people who are holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities,

to subscribe further securities by means of the issue of a renounceable letter (or other negotiable document) which may be traded for a period before payment for the securities is due, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

To resolve as a special resolution:

4 **THAT**, subject to and conditional upon Admission having occurred, the Directors be given power to make allotments of equity securities (as defined in Section 560(1) of the Act) wholly for cash:

(i) pursuant to the authority given by paragraph (i) of Resolution 3 and to sell shares which are held in treasury pursuant to Section 560(3) of the Act and, in each case:

 (a) in connection with a pre-emptive offer; and

 (b) otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £8.50; and

(ii) pursuant to the authority given by paragraph (ii) of Resolution 3 in connection with a rights issue,

as if Section 561(1) of the Act did not apply to any such allotment, and such power shall (unless previously revoked or renewed) expire on 21 February 2021, save that the said power shall permit the Company to make an offer or enter into an agreement before the expiry of such power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if such power conferred had not expired. For the purposes of this Resolution, the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

For the purposes of this Resolution: "**pre-emptive offer**" means an offer of equity securities open for acceptance for a period fixed by the Directors to (a) holders (other than the Company) on the register on a record date fixed by the Directors of ordinary shares in proportion to their respective holdings and (b) other persons so entitled by virtue of the rights attaching to any other equity securities held by them, but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory.

To resolve as a special resolution:

5 **THAT**, subject to and conditional upon Admission having occurred, the Company be generally and unconditionally authorised for the purposes of Section 701 of the Act, to make one or more market purchases (within the meaning of Section 693(4) of the Act) of Shares, subject to the following restrictions and provisions:

(i) the maximum number of Shares authorised to be purchased is the number equal to 10 per cent. of the Company's issued share capital at Admission;

(ii) the minimum price, exclusive of any expenses, which may be paid for a Share is 0.0001p;

(iii) the maximum price, exclusive of any expenses, which may be paid for a Share shall be the higher of:

(a) an amount equal to 5 per cent. above the average of the middle market quotations for Shares taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such shares are contracted to be purchased; and

(b) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time that the purchase is carried out; and

(iv) the authority hereby conferred shall expire on 21 February 2021 (except that the Company may make a contract to purchase Shares under this authority before such authority expires, which will or may be executed wholly or partly after the expiry of such authority, and may make purchases of Shares in pursuance of any such contract as if such authority had not expired).

To resolve as a special resolution:

6 **THAT**, subject to and conditional upon Admission having occurred, a general meeting other than the annual general meeting may be called on not less than 14 clear days' notice.

To resolve as an ordinary resolution:

7 **THAT** the secretary of the Company be instructed to make (or cause to be made) all necessary:

(i) entries in the Company's records and accounts; and

(ii) filings with the UK registrar of companies,

in connection with the matters set out in these resolutions.

By order of the Board,

Michael Brierley
Company Secretary

26 January 2016

Registered office:

One Southampton Row
London
WC1B 5HA
United Kingdom

Notes

1. A member entitled to attend and vote at the General Meeting convened by the above Notice of Meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the General Meeting. A proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

2. A form of proxy is enclosed. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

3. To appoint a proxy, the form of proxy and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority) must be returned to the Company Secretary at Metro Bank PLC, One Southampton Row, London WC1B 5HA or by email to shareholderproxy@metrobank.plc.uk.

4. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

5. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the Act ("**nominated persons**"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

6. Holders of Shares are entitled to attend and vote at general meetings of the Company.

7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

8. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or good order of the meeting that the question be answered.

9. Members may not use any electronic address provided in either this notice of meeting or any related documents (including the enclosed form or proxy) to communicate with the Company for any purposes other than those expressly stated.

APPENDIX II
NEW ARTICLES

COMPANY NUMBER: 6419578

The Companies Act 2006

Company Limited by Shares

ARTICLES OF ASSOCIATION

adopted by special resolution passed on February 2016

of

METRO BANK PLC

Table of Contents

Page

The Companies Act 2006

Company Limited by Shares

Articles of Association

adopted by special resolution passed on   February 2016

of

Metro Bank PLC
(the "Company")

Preliminary

1 Default Articles not to apply

Neither the regulations in The Companies (Model Articles) Regulations 2008 nor Table A in The Companies (Tables A to F) Regulations 1985 nor any other articles or regulations prescribing forms of articles which may apply to companies under the Legislation or any former enactment relating to companies shall apply to the Company.

2 Interpretation

In these Articles (if not inconsistent with the subject or context) the provisions of this Article 2 apply:

"**address**"	means any address or number (including, in the case of any Uncertificated Proxy Instruction, an identification number of a participant in the relevant system) used for the purposes of sending or receiving notices, documents or information by electronic means and/or by means of a website;
"**Annual General Meeting**"	means a general meeting held as the Company's annual general meeting in accordance with Section 336 of the Companies Act 2006;
"**Board**"	means the board of Directors from time to time of the Company;
"**Business Day**"	means a week day (not including Saturday) on which banks are open for normal business in England;
"**clear days**"	means a period of notice of the specified length excluding the day of the meeting and the day on which the notice is given or deemed to be given;
"**Companies Acts**"	shall have the same meaning as in Section 2 of the Companies Act 2006 in so far as they apply to the Company;
"**Company Communications Provisions**"	shall have the same meaning as in Section 1143 of the Companies Act 2006;

"**CREST Regulations**"	means The Uncertificated Securities Regulations 2001;
"Directors"	means the directors of the Company;
"**electronic form**"	shall have the same meaning as in the Company Communications Provisions;
"**electronic means**"	shall have the same meaning as in the Company Communications Provisions;
"**General Meeting**"	means any general meeting of the Company, including any general meeting held as the Company's Annual General Meeting;
"Group Company"	means any of the Company and its subsidiary undertakings for the time being;
"**hard copy form**"	shall have the same meaning as in the Company Communications Provisions;
"**in writing**"	means written or produced by any substitute for writing (including anything in electronic form) or partly one and partly another;
"**Legislation**"	means the Companies Acts, the CREST Regulations and every other enactment for the time being in force concerning companies and affecting the Company;
"**London Stock Exchange**"	means London Stock Exchange plc;
"**month**"	means calendar month;
"**Office**"	means the registered office of the Company from time to time;
"**Operator**"	means Euroclear UK & Ireland Limited or such other person as may from time to time be approved by H.M. Treasury as Operator under the CREST Regulations;
"**Operator-instruction**"	means a properly authenticated dematerialised instruction attributable to the Operator;
"**paid**"	means paid or credited as paid, including, for the avoidance of doubt, any premium;
"person entitled"	in relation to a share means a person entitled to that share by reason of the death or bankruptcy of a member or otherwise by operation of law;
"**Register**"	means the register of members of the Company;
"**relevant system**"	means a computer-based system, and procedures, which enable title to units of a security to be evidenced and transferred without a written instrument pursuant to the CREST Regulations;
"**Seal**"	means the common seal of the Company;

"**Secretary**"	means the secretary of the Company and any person appointed by the Directors to perform any of the duties of the secretary including, but not limited to, a joint, assistant or deputy secretary;
"**Securities Seal**"	means an official seal kept by the Company for sealing securities issued by the Company, or for sealing documents creating or evidencing securities so issued, as permitted by the Companies Acts;
"**these Articles**"	means these Articles of Association as from time to time altered;
"**Transfer Office**"	means the place where the Register is situated from time to time;
"**Uncertificated Proxy Instruction**"	means a properly authenticated dematerialised instruction, and/or other instruction or notification, sent by means of a relevant system to a participant in that system acting on behalf of the Company as the Directors may prescribe, in such form and subject to such terms and conditions as may from time to time be prescribed by the Directors (subject always to the facilities and requirements of the relevant system);
"**UK Listing Authority**"	means the Financial Conduct Authority in its capacity as competence authority for official listing under Part VI of the Financial Services and Markets Act 2000;
"**United Kingdom**"	means the United Kingdom of Great Britain and Northern Ireland; and
"**year**"	means calendar year.

2.1 Any reference to issued shares of any class (whether of the Company or of any other company) shall not include any shares of that class held as treasury shares except where the contrary is expressly provided.

2.2 Words denoting the singular shall include the plural and vice versa. Words denoting the masculine shall include the feminine. Words denoting persons shall include bodies corporate and unincorporated associations.

2.3 References to an Article are to a numbered paragraph of these Articles.

2.4 The words "including" and "include" and words of similar effect shall not be deemed to limit the general effect of the words which precede them.

2.5 References to any statute or statutory provision shall be construed as relating to any statutory modification or re-enactment thereof for the time being in force (whether coming into force before or after the date of adoption of these Articles).

2.6 References to a share (or to a holding of shares) being in certificated or uncertificated form are references, respectively, to that share being a certificated or an uncertificated unit of a security for the purposes of the CREST Regulations.

2.7 Subject to Article 28.2, the provisions of these Articles relating to General Meetings and to the proceedings at such meetings shall apply to separate meetings of a class of shareholders.

2.8 References to a person being present at a General Meeting include a person present by corporate representative.

2.9 Except as provided above, any words or expressions defined in the Companies Acts or the CREST Regulations shall (if not inconsistent with the subject or context) bear the same meanings in these Articles.

3 Liability of members

The liability of each member is limited to the amount (if any) for the time being unpaid on the shares held by that member.

Shares

4 Shares and special rights

4.1 Without prejudice to any rights attached to any existing shares, the Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if the Company passes a resolution to so authorise them, the Directors.

4.2 The Company may issue any shares which are to be redeemed, or are liable to be redeemed at the option of the Company or the holder and the Directors may determine the terms, conditions and manner of redemption of any such shares.

5 Commissions on issue of shares

Subject to the Legislation, the Company may pay a commission to any person who (i) subscribes or agrees to subscribe for shares or (ii) procures or agrees to procure subscriptions for shares, in each case either conditionally or unconditionally. Such payment may be in cash, by allotting fully or partly paid shares or other securities, or partly in one way and partly in the other.

6 Reduction of capital

The Company may by special resolution reduce its share capital, share premium account, capital redemption reserve or redenomination reserve in any way permitted by the Legislation.

7 Fractions arising on consolidation or subdivision

7.1 Whenever as a result of a subdivision or consolidation of shares any members would become entitled to fractions of a share, the Directors may:

7.1.1 sell the shares representing the fractions for the best price reasonably obtainable to any person (including, subject to the provisions of the Legislation, the Company);

7.1.2 distribute the net proceeds of sale in due proportion among those members; and

7.1.3 authorise any person to execute an instrument to transfer the shares to the purchaser or its nominee.

7.2 The transferee of the shares has no obligation to ensure that the purchase money is distributed in accordance with this Article 7.

7.3 The transferee's title to the shares shall not be affected by any irregularity in or invalidity of the sale proceedings.

7.4 Where any member's entitlement to a portion of the proceeds of sale amounts to less than a minimum figure determined by the Directors, that member's portion may at the Directors' discretion be distributed to an organisation which is a charity for the purposes of the law of England and Wales.

8 Capitalisation of profits and reserves

8.1 If so authorised by an ordinary resolution, the Directors may:

8.1.1 capitalise any sum standing to the credit of any of the Company's reserve accounts (including any share premium account, capital redemption reserve or other undistributable reserve); and

8.1.2 capitalise any sum standing to the credit of the profit and loss account that is not required for payment of any preferential dividend.

8.2 Unless the ordinary resolution passed in accordance with Article 8.1 states otherwise the Directors shall set aside such capitalised sum:

8.2.1 for the holders of ordinary shares ("**entitled members**"); and

8.2.2 in proportion to the number of ordinary shares held by them on the date that the resolution is passed in accordance with Article 8.1 or such other date as set out in or calculated in accordance with such resolution, or in such other proportions as stated, or fixed as stated, in the resolution.

8.3 The Directors may apply such capitalised sum in paying up new ordinary shares (or, subject to any special rights previously conferred on any shares or class of shares, new shares of any other class). The Company shall then allot such shares credited as fully paid to the entitled members or as they may direct. For the purposes of this Article 8.3, unless the ordinary resolution passed in accordance with Article 8.1 provides otherwise, if the Company holds treasury shares on the date determined in accordance with Article 8.2.2:

8.3.1 it shall be treated as an entitled member; and

8.3.2 all ordinary shares held by it as treasury shares shall be included in determining the proportions in which the capitalised sum is set aside.

8.4 To the extent a capitalised sum is appropriated from profits available for distribution it may also be applied:

8.4.1 in or towards paying up any amounts unpaid on existing shares held by the entitled members; or

8.4.2 in paying up new debentures of the Company which are then allotted credited as fully paid to the entitled members or as they may direct; or

8.4.3 a combination of the two.

8.5 The Directors may:

8.5.1 make such provisions as they think fit for any fractional entitlements which might arise on a capitalisation (including to disregard fractional entitlements or for the benefit of them to accrue to the Company); and

8.5.2 authorise any person to enter into an agreement with the Company on behalf of all of the entitled members in relation to the issue of shares or debentures pursuant to this Article 8. Any agreement made under such authority shall be binding on the entitled members.

9 Only absolute interests recognised

Except as required by law and these Articles, the Company is not obliged to recognise any person as holding any share upon any trust nor any other right in respect of any share, except the holder's absolute right to the share and the rights attaching to it.

Share Certificates

10 Issue of share certificates

10.1 The Company shall issue a share certificate to every person whose name is entered in the Register in respect of shares in certificated form, except where the Legislation allows the Company not to issue a certificate.

10.2 Subject to Article 12, the Company shall issue share certificates without charge.

10.3 The Company shall issue certificates within the time limit prescribed by the Legislation or, if earlier, within any time limit specified in the terms of the shares or under which they were issued.

10.4 Where shares are held jointly by several persons, the Company is not required to issue more than one certificate in respect of those shares, and delivery of a certificate to one joint holder shall be sufficient delivery to them all.

10.5 Each certificate must be in respect of one class of shares only. If a member holds more than one class of shares, separate certificates must be issued to that member in respect of each class.

11 Form of share certificate

11.1 Every share certificate shall be executed by the Company by affixing the Seal or the Securities Seal (or, in the case of shares on a branch register, an official seal for use in the relevant territory) or otherwise in any manner permitted by the Legislation.

11.2 Every share certificate shall specify the number and class of shares to which it relates, the nominal value of those shares, the amount paid up on them and any distinguishing numbers assigned to them.

12 Replacement of share certificates

12.1 A member who has separate certificates in respect of shares of one class may request in writing that it be replaced with a consolidated certificate. The Company may comply with such request at its discretion.

12.2 A member who has a consolidated share certificate may request in writing that it be replaced with two or more separate certificates representing the shares in such proportions as the member may specify. The Company may comply with such request at its discretion.

12.3 If a share certificate is damaged or defaced or alleged to have been lost, stolen or destroyed, the member shall be issued a new certificate representing the same shares upon request.

12.4 No new certificate will be issued pursuant to this Article 12 unless the relevant member has:

12.4.1 first delivered the old certificate or certificates to the Company for cancellation; or

12.4.2 complied with such conditions as to evidence and indemnity as the Directors may think fit; and

12.4.3 paid such reasonable fee as the Directors may decide.

12.5 In the case of shares held jointly by several persons, any request pursuant to this Article 12 may be made by any one of the joint holders.

13 Consolidated and balance share certificates

13.1 If a member's holding of shares of a particular class increases, the Company must issue that member with either:

13.1.1 a consolidated certificate in respect of all of the shares of that class held by that member; or

13.1.2 a separate certificate in respect of only the number of shares of that class by which that member's holding has increased.

13.2 If some only of the shares comprised in a share certificate are transferred, or the member's holding of those shares is otherwise reduced, the Company shall issue a new certificate for the balance of such shares.

13.3 No new certificate will be issued pursuant to this Article 13 unless the relevant member has:

13.3.1 first delivered any old certificate or certificates that represent any of the same shares to the Company for cancellation; or

13.3.2 complied with such conditions as to evidence and indemnity as the Directors may think fit and paid such reasonable fee as the Directors may decide.

.

Shares not held in Certificated Form

14 Uncertificated shares

14.1 In this Article 14, "**the relevant rules**" means:

14.1.1 any applicable provision of the Legislation about the holding, evidencing of title to, or transfer of shares other than in certificated form; and

14.1.2 any applicable legislation, rules or other arrangements made under or by virtue of such provision.

14.2 The provisions of this Article 14 have effect subject to the relevant rules.

14.3 To the extent any provision of the Articles is inconsistent with the applicable relevant rules it must be disregarded.

14.4 Any share or class of shares of the Company may be issued or held on such terms, or in such a way, that:

14.4.1 title to it or them is not, or must not be, evidenced by a certificate; or

14.4.2 it or they may or must be transferred wholly or partly without a certificate.

14.5 The Directors have power to take such steps as they think fit in relation to:

14.5.1 the evidencing of and transfer of title to uncertificated shares (including in connection with the issue of such shares);

14.5.2 any records relating to the holding of uncertificated shares;

14.5.3 the conversion of certificated shares into uncertificated shares; or

14.5.4 the conversion of uncertificated shares into certificated shares.

14.6 The Company may by notice to the holder of a share require that share:

14.6.1 if it is uncertificated, to be converted into certificated form; and

14.6.2 if it is certificated, to be converted into uncertificated form,

to enable it to be dealt with in accordance with the Articles.

14.7 If:

14.7.1 the Articles give the Directors power to take action, or require other persons to take action, in order to sell, transfer or otherwise dispose of shares; and

14.7.2 uncertificated shares are subject to that power, but the power is expressed in terms which assume the use of a certificate or other written instrument,

the Directors may take such action as is necessary or expedient to achieve the same results when exercising that power in relation to uncertificated shares.

14.8 The Directors may take such action as they consider appropriate to achieve the sale, transfer, disposal, forfeiture, re-allotment or surrender of an uncertificated share or otherwise to enforce a lien in respect of it. This may include converting such share to certificated form.

14.9 Unless the Directors resolve otherwise, shares which a member holds in uncertificated form must be treated as separate holdings from any shares which that member holds in certificated form.

14.10 A class of shares must not be treated as two classes simply because some shares of that class are held in certificated form and others are held in uncertificated form.

Calls on Shares

15 Sums due on shares

15.1 For the purposes of these Articles, any sum (whether on account of the nominal value of the share or by way of premium) which by the terms of allotment of a share becomes payable upon allotment, or at any fixed date, shall be deemed to be a call duly made and payable on the date on which it is payable.

15.2 In case of non-payment, all the relevant provisions of these Articles as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.

16 Power to differentiate between holders

On the allotment of shares, the Directors may provide that the amount of calls to be paid on those shares and the times of payment are different for different holders of those shares.

17 Calls

17.1 Subject to the terms of allotment of the shares, the Directors may make a "**call**" by requiring a member to pay to the Company any money that is payable on the shares such member holds as at the date of the call.

17.2 A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed.

17.3 Notice of a call must be given to the relevant member and may specify the time or times and place where payment is required to be made.

17.4 A call may be made payable by instalments.

17.5 A member must pay to the Company the amount called on such member's shares at the time or times and place specified, but is not required to do so until 10 Business Days have passed since the notice of call was sent.

17.6 A call may be wholly or partly revoked or postponed at any time before payment of it is made, as the Directors may decide.

18 Liability for calls

18.1 The joint holders of a share shall be jointly and severally liable to pay all calls in respect of such share.

18.2 A person on whom a call is made remains liable for the call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

19 Interest on overdue amounts

19.1 If a sum called in respect of a share is not paid by the time it is due for payment, the member from whom the sum is due shall pay interest on the sum from the time payment was due to the time of actual payment at such rate as the Directors may reasonably decide and shall pay all expenses that may have been incurred by the Company be reason of such non-payment.

19.2 The Directors may waive payment of such interest or expenses wholly or in part at their discretion.

19.3 No dividend or other payment or distribution in respect of any share in relation to which the call remains unpaid shall be paid or distributed and no other rights which would otherwise normally be exercisable in accordance with these Articles may be exercised by a holder of any share so long as any such sum or any interest or expenses payable in accordance with this Article in relation thereto remains due

20 Payment of calls in advance

20.1 Any member may pay to the Company all or any part of the amount (whether on account of the nominal value of the shares or by way of premium) uncalled and unpaid upon the shares held by such member. The Directors may accept or refuse such payment, as they think fit.

20.2 Any payment in advance of calls shall, to the extent of such payment, extinguish the liability upon the shares in respect of which it is made.

20.3 No payment made in advance of calls shall entitle the holder of a share in respect thereof to any portion of a dividend or other payment or distribution subsequently declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable

20.4 The Company may pay interest upon the money so received (until the same would but for such advance become payable) at such rate as the as the Directors may reasonably decide.

Forfeiture and Lien

21 Notice on failure to pay a call

21.1 If a member fails to pay in full any call or instalment of a call on or before the due date for payment, the Directors may at any time serve a notice in writing on such member requiring payment of:

21.1.1 so much of the call or instalment as is due but unpaid;

21.1.2 any interest which may have accrued on the unpaid amount; and

21.1.3 any expenses incurred by the Company by reason of such non-payment.

21.2 The notice shall state:

21.2.1 a date (not being less than 10 Business Days from the date of service of the notice) on or before which the payment is to be made;

21.2.2 the place where the payment is to be made; and

21.2.3 that in the event of non-payment the shares on which the call has been made will be liable to be forfeited.

22 Forfeiture for non-compliance

22.1 If the requirements of any notice given pursuant to Article 21 are not complied with and any calls and/or interest and/or expenses due in respect of such share remain unpaid, any share in respect of which such notice has been given may be forfeited by a resolution of the Directors to that effect.

22.2 Such forfeiture shall include all dividends declared in respect of the forfeited share and not actually paid before forfeiture.

22.3 The Directors may accept a surrender of any share liable to be forfeited pursuant to this Article 22.

22.4 Forfeiture shall be deemed to occur at the time of the said resolution of the Directors.

23 Disposal of forfeited shares

23.1 A share forfeited or surrendered shall become the property of the Company and may be sold, re-allotted or otherwise disposed of either to any person (including the person who was before such forfeiture or surrender the holder of that share or entitled to it) on such terms and in such manner as the Directors shall think fit.

23.2 At any time before a sale, re-allotment or disposal, the forfeiture or surrender may be cancelled on such terms as the Directors think fit.

23.3 The Directors may authorise any person to transfer a forfeited or surrendered share pursuant to this Article 23 and may enter the name of the transferee in respect of the transferred shares in the register notwithstanding the absence of any share certificate being lodged in respect thereof and may issue a new certificate to the transferee and an instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of the shares.

24 Holder to remain liable despite forfeiture

24.1 A person whose shares have been forfeited or surrendered shall:

24.1.1 cease to be a member in respect of those shares;

24.1.2 in the case of shares held in certificated form, surrender to the Company for cancellation the certificate for such shares;

24.1.3 remain liable to pay to the Company all moneys which at the date of forfeiture or surrender were payable by such person to the Company in respect of the shares together with interest on such sum at such rate as the Directors may reasonably decide from the date of forfeiture or surrender until the date of actual payment.

24.2 The Directors may at their absolute discretion enforce payment without any allowance for the value of the shares at the time of forfeiture or surrender or for any consideration received on their disposal. They may also waive payment in whole or in part.

25 Lien on partly-paid shares

25.1 The Company shall have a lien on every share that is not fully-paid for all moneys in respect of the share's nominal value, or any premium at which it was issued, that have not been paid to the Company and are payable immediately or at a fixed time in the future, whether or not a call has been made on such sums.

25.2 The Company's lien over a share takes priority over the rights of any third party and extends to any dividends or other sums payable by the Company in respect of that share (including any sale proceeds if that share is sold by the Company pursuant to these Articles).

25.3 The Directors may waive any lien which has arisen and may resolve that any share shall be exempt wholly or partially from the provisions of this Article 25 for such period as the Directors decide.

26 Sale of shares subject to lien

26.1 The Company may sell, in such manner as the Directors decide, any share in respect of which an enforcement notice has been given if that notice has not been complied with.

26.2 An enforcement notice:

26.2.1 may only be given if a sum in respect of which the lien exists is due and has not been paid;

26.2.2 must specify the share concerned;

26.2.3 must require payment of the sum due on a date not less than 10 Business Days from the date of the notice;

26.2.4 must be addressed to the holder of, or person entitled to, that share; and

26.3 must give notice of the Company's intention to sell the share if the notice is not complied with.

26.4 For the purpose of giving effect to any such sale, the Directors may authorise any person to transfer the shares sold to the purchaser or its nominee and an instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of, or person entitled by transmission, to the shares.

26.5 The person upon whom an enforcement notice is served shall be prohibited from disposing of or otherwise dealing with any of the shares in question from the date of service of such notice pending such sale.

26.6 The net proceeds of such sale (after payment of the costs of the sale and of enforcing the lien) shall be applied:

26.6.1 first, in or towards payment or satisfaction of the amount in respect of which the lien exists, to the extent that amount was due on the date of the enforcement notice; and

26.6.2 secondly, to the person entitled to the shares immediately prior to the sale, provided that:

(i) that person has first delivered the certificate or certificates in respect of the shares sold to the Company for cancellation or complied with such conditions as to evidence and indemnity as the Directors may think fit; and

(ii) the Company shall have a lien over such proceeds (equivalent to that which existed upon the shares prior to the sale) in respect of sums which become or became due after the date of the enforcement notice in respect of the shares sold.

26.7 The transferee of the shares has no obligation to ensure that the purchase money is distributed in accordance with the Articles

26.8 The transferee's title to the shares shall not be affected by any irregularity in or invalidity of the forfeiture, surrender or sale proceedings.

26.9 Neither the Company nor any of its officers or agents shall be liable for any shortfall or alleged shortfall in the sale proceeds.

27 Evidence of forfeiture

A statutory declaration that the declarant is a Director or the Secretary and that a share has been duly forfeited or surrendered or sold to satisfy a lien of the Company on a date stated in the declaration shall be conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the share. Subject to compliance with any other transfer formalities required by the Articles or by law, such declaration shall constitute a good title to the share.

Variation of Rights

28 Manner of variation of rights

28.1 Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may be varied or abrogated:

28.1.1 with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class, excluding any shares held as treasury shares; or

28.1.2 with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class (but not otherwise),

and may be so varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding-up.

28.2 The provisions of these Articles relating to General Meetings and to the proceedings at such meetings shall apply to separate meetings of a class of shareholders (with only such changes as are necessary), except that:

28.2.1 the necessary quorum at a separate meeting shall be two persons at least, holding or representing by proxy at least one-third in nominal value of the issued shares of the class;

28.2.2 at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum;

28.2.3 any holder of shares of the class present in person or by proxy may demand a poll;

28.2.4 every such holder shall on a poll have one vote for every share of the class held by the holder; and

28.2.5 if a meeting is adjourned for any reason including a lack of quorum, the adjourned meeting may be held less than ten clear days after the original meeting notwithstanding Article 43.2.

28.3 The provisions of this Article 28 shall apply to the variation or abrogation of the special rights attached to some only of the shares of any class as if each group of shares of the class differently treated form a separate class the special rights of which are to be varied.

29 Matters not constituting variation of rights

The special rights attached to any class of shares having preferential rights shall not, unless otherwise expressly provided by their terms of issue, be deemed to be varied by:

29.1 the creation or issue of further shares ranking, as regards participation in the profits or assets of the Company, in some or all respects equally with them but in no respect in priority to them; or

29.2 the purchase or redemption by the Company of any of its own shares.

Transfer of Shares

30 Form of transfer

30.1 All transfers of shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the Directors.

30.2 The instrument of transfer shall be signed by or on behalf of the transferor and, if any of the shares are not fully-paid shares, by or on behalf of the transferee.

30.3 The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register in respect of those shares.

30.4 All instruments of transfer which are registered may be retained by the Company.

30.5 All transfers of shares which are in uncertificated form shall be effected by means of a relevant system unless the CREST Regulations provide otherwise.

31 Right to refuse registration

31.1 The Directors may decline to register any transfer of shares in certificated form unless:

31.1.1 the instrument of transfer is in respect of only one class of share;

31.1.2 the instrument of transfer is lodged (duly stamped if required) at the Transfer Office accompanied by the relevant share certificate(s) or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer or, if the instrument of transfer is executed by some other person on the transferor's behalf, the authority of that person to do so; and

31.1.3 it is fully paid.

31.2 The Directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly.

32 No fee on registration

No fee will be charged by the Company in respect of the registration of any transfer or other document relating to or affecting the title to any shares or otherwise for making any entry in the Register affecting the title to any shares.

33 Branch register

If the Company transacts business in a country or territory referred to in Section 129 of the Companies Act 2006, it may arrange for a branch register of the members resident in that country or territory to be kept there.

Transmission of Shares

34 Persons entitled to shares on death

34.1 If a member dies the only persons the Company shall recognise as having any title to such member's interest in the shares shall be:

34.1.1 the survivors or survivor where the deceased was a joint holder; and

34.1.2 the executors or administrators of the deceased where the deceased was a sole or only surviving holder.

34.2 Nothing in this Article 34 shall release the estate of a deceased member (whether sole or joint) from any liability in respect of any share held by such member.

35 Election by persons entitled by transmission

35.1 A person becoming entitled to a share in consequence of the death or bankruptcy of a member or otherwise by operation of law may either:

35.1.1 be registered as holder of the share upon giving to the Company notice in writing to that effect; or

35.1.2 transfer such share to some other person,

upon supplying to the Company such evidence as the Directors may reasonably require to show such person's title to the share.

35.2 All the limitations, restrictions and provisions of these Articles relating to the right to transfer and the registration of transfers of shares shall apply to any such notice or transfer as if the notice or transfer were a transfer made by the member registered as the holder of any such share.

36 Rights of persons entitled by transmission

36.1 A person becoming entitled to a share in consequence of the death or bankruptcy of a member or otherwise by operation of law:

36.1.1 subject to Article 36.1.2, shall be entitled to the same dividends and other advantages as a registered holder of the share upon supplying to the Company such evidence as the Directors may reasonably require to show such person's title to the share; and

36.1.2 shall not be entitled to exercise any right in respect of the share in relation to General Meetings until such person has been registered as a member in respect of the share.

36.2 A person entitled to a share who has elected for that share to be transferred to some other person pursuant to Article 35.1.2 shall cease to be entitled to any rights or advantages in relation to such share upon that other person being registered as the holder of that share.

37 Prior notices binding

If a notice is given to a member in respect of a share, a person entitled to that share is bound by the notice if it was given to the member before the name of the person entitled was entered into the Register.

Untraced Shareholders

38 Untraced shareholders

38.1 The Company shall be entitled to sell the shares of a member, or a person entitled to those shares, if and provided that:

38.1.1 during the period of 12 years prior to the date of the publication of the advertisements referred to in Article 38.1.2 (or, if published on different dates, the first of them) at least three dividends in respect of the shares have become payable and no dividend in respect of those shares has been claimed;

38.1.2 the Company has inserted advertisements in both (i) a national newspaper and (ii) a newspaper circulating in the area in which the last known postal address of the member or other address for service notified to the Company is located, giving notice of its intention to sell the shares; and

38.1.3 during the period of three months following the publication of such advertisements the Company has received no communication from such member or person.

38.2 If the Company is entitled to sell any shares pursuant to Article 38.1, it shall do so at the best price reasonably obtainable at the time of sale.

38.3 To give effect to any such sale the Company may appoint any person to transfer, as transferor, the said shares and such transfer shall be as effective as if it had been carried out by the registered holder of or person entitled to such shares and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto.

38.4 The transferee of the shares has no obligation to ensure that the purchase money is distributed in accordance with the Articles.

The net proceeds of such sale (after payment of the costs of the sale) shall belong to the Company. The Company shall be obliged to account to the former member or other person previously entitled for an amount equal to such proceeds and shall enter the name of such former member or other person in the books of the Company as a creditor for such amount. No trust shall be created in respect of the debt and no interest shall be payable in respect of it. The Company shall not be required to account for any money earned on the net proceeds, which may be employed in the business of the Company or invested in such investments as the Directors may from time to time think fit.

General Meetings

39 Annual General Meetings

An Annual General Meeting shall be held in each period of six months beginning with the day following the Company's accounting reference date, at such place or places, date and time as may be decided by the Directors.

40 Convening of General Meetings

The Directors may, whenever they think fit, and shall on requisition in accordance with the Legislation, proceed to convene a General Meeting.

Notice of General Meetings

41 Notice of General Meetings

41.1 Notices of General Meetings shall include all information required to be included by the Legislation.

41.2 Notice shall be given to all members other than members who are not entitled to receive such notices from the Company under the provisions of these Articles. The Company may determine that only those persons entered on the Register at the close of business on a day decided by the Company, such day being no more than 21 days before the day that notice of the meeting is sent, shall be entitled to receive such a notice. If a member is added to the Register after the day determined by the Company under this Article, this shall not invalidate the service of the notice, nor entitle such member to receive notice of the meeting.

41.3 For the purposes of determining which persons are entitled to attend or vote at a meeting, and how many votes such persons may cast, the Company must specify in the notice of the meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered on the Register in order to have the right to attend or vote at the meeting. The Directors may at their discretion resolve that, in calculating such period, no account shall be taken of any part of any day that is not a working day (within the meaning of Section 1173 of the Companies Act 2006).

Proceedings at General Meetings

42 Chairman

The Chairman of the Directors shall preside as Chairman of any General Meeting at which he/she is present (as long as he/she is willing to do so). If he/she is not present or is unwilling, a Deputy Chairman, failing whom any Director present and willing to act and, if more than one, chosen by the Directors present at the meeting, shall preside as Chairman. If no Director is present, or if each of the Directors present declines to take the chair, the persons present whether members or proxies appointed by members in relation to the meeting and entitled to vote, shall appoint one of their number to be chairman.

43 Requirement for Quorum

43.1 No business other than the appointment of a Chairman shall be transacted at any General Meeting unless a quorum is present at the time when the meeting proceeds to business. Two members present in person or by proxy shall be a quorum for all purposes.

43.2 If within ten minutes from the time appointed for a General Meeting (or such longer interval as the Chairman of the meeting may think fit to allow) a quorum is not present, or if during the meeting a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case it shall stand adjourned to such day, time and place as may have been specified for the purpose in the notice convening the meeting or (if not so specified) as the Directors may decide, provided that the adjourned meeting shall be held not less than ten clear days after the original General Meeting.

44 Adjournment

44.1 The Chairman of any General Meeting at which a quorum is present may adjourn the meeting if:

44.1.1 the members consent to an adjournment by passing an ordinary resolution;

44.1.2 the Chairman considers it necessary to restore order or to otherwise facilitate the proper conduct of the meeting; or

44.1.3 the Chairman considers it necessary for the safety of the people attending the meeting (including if there is insufficient room at the meeting venue to accommodate everyone who wishes to, and is entitled to, attend).

44.2 The Chairman of any General Meeting at which a quorum is present must adjourn the meeting if requested to do so by the meeting by an ordinary resolution.

44.3 If the Chairman adjourns a meeting the Chairman may specify the time and place to which it is adjourned. Where a meeting is adjourned without specifying a new time and place, the time and place for the adjourned meeting shall be fixed by the Directors.

44.4 No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

45 Notice of adjourned meeting

When a meeting is adjourned for 30 days or more or without specifying a new time, not less than seven days' notice of the adjourned meeting shall be given in accordance with Article 41 (making such alterations as necessary). Otherwise it shall not be necessary to give any such notice.

46 Amendments to resolutions

46.1 A special resolution to be proposed at a General Meeting may be amended by ordinary resolution provided that no amendment may be made other than a mere clerical amendment to correct a patent error.

46.2 An ordinary resolution to be proposed at a General Meeting may be amended by ordinary resolution provided that:

46.2.1 in the opinion of the Chairman of the meeting the amendment is within the scope of the business of the meeting as described and does not impose further obligations on the Company; and

46.2.2 notice of the proposed amendment is given to the Company by a person entitled to vote at the General Meeting in question at least 48 hours before the meeting or adjourned meeting (as the case may be).

46.3 If an amendment is proposed to any resolution under consideration but is in good faith ruled out of order by the Chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.

47 Security arrangements and orderly conduct

47.1 The Directors may put in place such arrangements or restrictions as they think fit to ensure the safety and security of the attendees at a General Meeting and the orderly conduct of the meeting, including requiring attendees to submit to searches.

47.2 The Directors may refuse entry to, or remove from, a General Meeting any member, proxy or other person who fails to comply with such arrangements or restrictions.

47.3 The Chairman of a General Meeting may take such action as the Chairman thinks fit to maintain the proper and orderly conduct of the meeting.

48 Satellite meeting places

48.1 To facilitate the organisation and administration of any General Meeting, the Directors may decide that the meeting shall be held at two or more locations.

48.2 For the purposes of these Articles any General Meeting taking place at two or more locations shall be treated as taking place where the Chairman of the meeting presides (the "**principal meeting place**") and any other location where that meeting takes place is referred to in these Articles as a "**satellite meeting**".

48.3 A member present in person or by proxy at a satellite meeting may be counted in the quorum and may exercise all rights that they would have been able to exercise if they were present at the principal meeting place.

48.4 The Directors may make and change from time to time such arrangements as they shall in their absolute discretion consider appropriate to:

48.4.1 ensure that all members and proxies for members wishing to attend the meeting can do so;

48.4.2 ensure that all persons attending the meeting are able to participate in the business of the meeting and to see and hear anyone else addressing the meeting;

48.4.3 ensure the safety of persons attending the meeting and the orderly conduct of the meeting; and

48.4.4 restrict the numbers of members and proxies at any one location to such number as can safely and conveniently be accommodated there.

48.5 The entitlement of any member or proxy to attend a satellite meeting shall be subject to any such arrangements then in force and stated by the notice of meeting or adjourned meeting to apply to the meeting.

48.6 If there is a failure of communication equipment or any other failure in the arrangements for participation in the meeting at more than one place, the Chairman may adjourn the meeting in accordance with Article 44.1.2. Such an adjournment will not affect the validity of such meeting, or any business conducted at such meeting up to the point of adjournment, or any action taken pursuant to such meeting.

48.7 A person (a "**satellite chairman**") appointed by the Directors shall preside at each satellite meeting. Every satellite chairman shall carry out all requests made of the satellite chairman by the Chairman of the General Meeting, may take such action as the satellite chairman thinks necessary to maintain the proper and orderly conduct of the satellite meeting and shall have all powers necessary or desirable for such purposes.

Polls

49 Demand for poll

49.1 At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded (either before the resolution is put to the vote on a show of hands or immediately after the declaration of the result of the show of hands on that resolution) by:

49.1.1 the Chairman of the meeting;

49.1.2 not less than five members present in person or by proxy and entitled to vote;

49.1.3 a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting (excluding the rights attaching to any shares held as treasury shares); or

49.1.4 a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right (excluding any such shares held as treasury shares).

49.2 A demand for a poll may be withdrawn before the poll is taken but only with the consent of the Chairman. A demand so withdrawn shall not be taken to have invalidated the result of a show of hands declared before the demand was made.

50 Procedure on a poll

50.1 A poll shall be taken in such manner (including by use of ballot or voting papers or electronic means, or any combination of means) as the Chairman of the meeting may direct.

50.2 The Chairman of the meeting may appoint scrutineers (who need not be members) and may decide how and when the result of the poll is to be declared.

50.3 The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

50.4 On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his/her votes or cast all the votes he/she uses in the same way.

51 Timing of poll

51.1 A poll demanded on the choice of a Chairman or on a question of adjournment shall be taken immediately. A poll demanded on any other question shall be taken either immediately or at such subsequent time (not being more than 30 days from the date of the meeting) and place as the Chairman may direct.

51.2 No notice need be given of a poll not taken immediately if the time and place at which it is to be taken are announced at the meeting at which it is demanded. In any other case, at least seven days' notice must be given specifying the time and place at which the poll is to be taken.

51.3 The demand for a poll shall not prevent the meeting from continuing for the purpose of any business other than the question on which the poll has been demanded.

Votes of Members

52 Votes attaching to shares

52.1 Subject to Article 41.3 and to any special rights or restrictions as to voting attached by or in accordance with these Articles to any shares or any class of shares:

52.1.1 on a show of hands every member who is present in person and, subject to Article 52.1.2, every proxy present who has been duly appointed shall have one vote;

52.1.2 on a show of hands, a proxy has one vote for and one vote against the resolution if the proxy has been duly appointed by more than one member entitled to vote on the resolution, and the proxy has been instructed:

(i) by one or more of those members to vote for the resolution and by one or more other of those members to vote against it; or

(ii) by one or more of those members to vote either for or against the resolution and by one or more other of those members to use his/her discretion as to how to vote; and

52.1.3 on a poll every member who is present in person or by proxy shall have one vote for every share of which such member is the holder.

52.2 A proxy shall not be entitled to vote on a show of hands or on a poll where the member appointing the proxy would not have been entitled to vote on the resolution had such member been present in person.

53 Votes of joint holders

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names appear in the Register in respect of the share.

54 Validity and result of vote

54.1 No objection shall be raised as to the qualification of any voter or the admissibility of any vote except at the meeting or adjourned meeting at which the vote is tendered. Every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the Chairman of the meeting, whose decision shall be final and conclusive.

54.2 On a vote on a resolution at a meeting on a show of hands, a declaration by the Chairman that the resolution:

54.2.1 has or has not been passed; or

54.2.2 has been passed with a particular majority,

54.3 is conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against the resolution. An entry in respect of such a declaration in minutes of the meeting recorded in accordance with the Companies Acts is also conclusive evidence of that fact without such proof. This Article 54 does not have effect if a poll is demanded in respect of the resolution (and the demand is not subsequently withdrawn).

Proxies and Corporate Representatives

55 Appointment of proxies

55.1 A member is entitled to appoint a proxy to exercise all or any of such member's rights to attend and to speak and vote at a General Meeting.

55.2 A proxy need not be a member of the Company.

56 Multiple Proxies

A member may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such member.

57 Form of proxy

57.1 The appointment of a proxy must be in writing in any usual or common form or in any other form which the Directors may approve and:

57.1.1 in the case of an individual must either be signed by the appointor or the appointor's attorney or authenticated in accordance with Article 117; and

57.1.2 in the case of a corporation must be either given under its common seal or be signed on its behalf by an attorney or a duly authorised officer of the corporation or authenticated in accordance with Article 117.

57.2 Any signature on or authentication of such appointment need not be witnessed. Where an appointment of a proxy is signed or authenticated in accordance with Article 117 on behalf of the appointor by an attorney, the Company may treat that appointment as invalid unless the power of attorney or a notarially certified copy of the power of attorney is submitted to the Company.

57.3 A proxy need not be a member.

58 Deposit of form of proxy

58.1 The appointment of a proxy must be received in the manner set out in or by way of note to, or in any document accompanying, the notice convening the meeting (or if no address is so specified, at the Transfer Office):

58.1.1 in the case of a meeting or adjourned meeting, not less than 48 hours before the commencement of the meeting or adjourned meeting to which it relates;

58.1.2 in the case of a poll taken following the conclusion of a meeting or adjourned meeting, but not more than 48 hours after the poll was demanded, not less than 48 hours before the commencement of the meeting or adjourned meeting at which the poll was demanded; and

58.1.3 in the case of a poll taken more than 48 hours after it was demanded, not less than 24 hours before the time appointed for the taking of the poll,

and in default shall not be treated as valid.

58.2 The Directors may at their discretion resolve that, in calculating the periods mentioned in Article 58.1, no account shall be taken of any part of any day that is not a working day (within the meaning of Section 1173 of the Companies Act 2006).

58.3 In relation to any shares in uncertificated form the Directors may permit a proxy to be appointed by electronic means or by means of a website in the form of an Uncertificated Proxy Instruction and may permit any supplement to, or amendment or revocation of, any Uncertificated Proxy Instruction to be made by a further Uncertificated Proxy Instruction. The Directors may prescribe the method of determining the time at which any Uncertificated Proxy Instruction is to be treated as received by the Company. The Directors may treat any Uncertificated Proxy Instruction purporting or expressed to be sent on behalf of a holder of a share as sufficient evidence of the authority of the person sending the instruction to send it on behalf of that holder.

58.4 Unless the contrary is stated on the proxy form, the appointment of a proxy shall be as valid for any adjournment of a meeting as it is for the meeting to which it relates.

59 Rights of proxy

Subject to the Legislation, a proxy shall have the right to exercise all or any of the rights of the proxy's appointor, or (where more than one proxy is appointed by a member) all or any of the rights attached to the shares in respect of which such person is appointed the proxy to attend, and to speak and vote, at a General Meeting.

60 Termination of proxy's authority

60.1 Neither the death or insanity of a member who has appointed a proxy, nor the revocation or termination by a member of the appointment of a proxy (or of the authority under which the appointment was made), shall invalidate the proxy or the exercise of any of the rights of the proxy, unless notice of such death, insanity, revocation or termination shall have been received by the Company in accordance with Article 60.2.

60.2 Any such notice of death, insanity, revocation or termination must be in writing and be received at the address or one of the addresses (if any) specified for receipt of proxies in, or by way of note to, or in any document accompanying, the notice convening the meeting to which the appointment of the proxy relates (or if no address is so specified, at the Transfer Office):

60.2.1 in the case of a meeting or adjourned meeting, not less than one hour before the commencement of the meeting or adjourned meeting to which the proxy appointment relates;

60.2.2 in the case of a poll taken following the conclusion of a meeting or adjourned meeting, but not more than 48 hours after it was demanded, not less than one hour before the commencement of the meeting or adjourned meeting at which the poll was demanded; or

60.2.3 in the case of a poll taken more than 48 hours after it was demanded, not less than one hour before the time appointed for the taking of the poll.

61 Corporations acting by representatives

Subject to the Legislation, any corporation which is a member of the Company may by resolution of its directors or other governing body authorise a person or persons to act as its representative or representatives at any General Meeting.

Default Shares

62 Restriction on voting in particular circumstances

62.1 Unless the Directors resolve otherwise, no member shall be entitled in respect of any share held by such member to vote either personally or by proxy or to exercise any other right conferred by membership in relation to General Meetings if any call or other sum due from such member to the Company in respect of that share remains unpaid.

62.2 If any member, or any other person appearing to be interested in shares (within the meaning of Part 22 of the Companies Act 2006) held by such member, has been duly served with a notice under Section 793 of the Companies Act 2006 and is in default for a period of 14 days in supplying to the Company the information required by that notice, then (unless the Directors otherwise determine) in respect of:

62.2.1 the shares comprising the shareholding account in the Register which comprises or includes the shares in relation to which the default occurred (all or the relevant number as appropriate of such shares being the "**default shares**", which expression shall include any further shares which are issued in respect of such shares); and

62.2.2 any other shares held by the member,

the member shall not (for so long as the default continues) nor shall any transferee to whom any of such shares are transferred (other than pursuant to an approved transfer or pursuant to Article 62.3.2) be entitled to attend or vote either personally or by proxy at a General Meeting or to exercise any other right conferred by membership in relation to General Meetings.

62.3 Where the default shares represent 0.25 per cent or more of the issued shares of the class in question, the Directors may in their absolute discretion by notice in writing (a "**direction notice**") to such member direct that:

62.3.1 any dividend or part of a dividend (including shares to be issued in lieu of a dividend) or other money which would otherwise be payable in respect of the default shares shall be retained by the Company without any liability to pay interest on it when such dividend or other money is finally paid to the member; and/or

62.3.2 no transfer of any of the shares held by such member shall be registered unless the transfer is an approved transfer or:

(i) the member is not in default as regards supplying the information required in respect of the share(s) in question; and

(ii) the transfer is of part only of the member's holding and, when presented for registration, is accompanied by a certificate by the member in a form satisfactory to the Directors to the effect that after due and careful enquiry the member is satisfied that none of the shares the subject of the transfer are default shares,

provided that, in the case of shares in uncertificated form, the Directors may only exercise their discretion not to register a transfer if permitted to do so by the CREST Regulations.

62.4 The Company shall send a copy of the direction notice to each other person appearing to be interested in the shares the subject of that direction notice, but the failure or omission by the Company to do so shall not invalidate such notice.

62.5 Any direction notice shall have effect in accordance with its terms for so long as the default in respect of which the direction notice was issued continues. Any direction notice shall cease to have effect at such time as the Directors decide. Within a period of one week of the default being duly remedied, the Directors shall decide that the relevant direction notice shall cease to have effect and shall give written notice of that fact to the member as soon as reasonably practicable.

62.6 Any direction notice shall cease to have effect in relation to any shares which are transferred by such member by means of an approved transfer or in accordance with Article 62.3.2.

62.7 For the purposes of this Article 62:

62.7.1 a person shall be treated as appearing to be interested in any shares if the member holding such shares has been served with a notice under Section 793 of the Companies Act 2006 and either (i) the member has named such person as being so interested or (ii) (after taking into account the response of the member to the said notice and any other relevant information) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares; and

62.7.2 a transfer of shares is an "**approved transfer**" if:

(i) it is a transfer of shares to an offeror by way or in pursuance of acceptance of a takeover offer (as defined in Section 974 of the Companies Act 2006); or

(ii) the Directors are satisfied that the transfer is made pursuant to a genuine sale of the whole of the beneficial ownership of the shares to a party unconnected with the member, or with any person appearing to be interested in such shares, including any such sale made through an investment exchange that has been granted recognition under the Financial Services and Markets Act 2000 or through a stock exchange outside the United Kingdom on which the Company's shares are normally traded. For the purposes of this Article 62 any associate (as that term is defined in Section 435 of the Insolvency Act 1986) shall be included amongst the persons who are connected with the member or any person appearing to be interested in such shares.

62.8 The provisions of this Article 62 are in addition and without prejudice to the provisions of the Companies Acts.

Directors

63 Number of Directors

The Directors shall not be less than two nor more than 15 in number save that the Company may by ordinary resolution from time to time vary the minimum number and/or maximum number of Directors.

64 Share qualification

A Director shall not be required to hold any shares of the Company by way of qualification. A Director who is not a member of the Company shall nevertheless be entitled to attend and speak at General Meetings.

65 Directors' fees

65.1 The ordinary remuneration of the Directors shall from time to time be determined by the Directors except that such remuneration, when taken together with the ordinary remuneration the Directors receive as directors of other entities within the same group of companies as the Company, shall not exceed £3,000,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution.

65.2 Such ordinary remuneration shall (unless otherwise provided by ordinary resolution) be divisible among the Directors as they may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to remuneration in proportion to the period during which such Director has held office.

66 Other remuneration of Directors

Any Director who holds any executive office (including for this purpose the office of Chairman or Deputy Chairman whether or not such office is held in an executive capacity), or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the Directors may determine.

67 Directors' expenses

The Directors may repay to any Director all such reasonable expenses as that Director may incur in attending and returning from meetings of the Directors or of any committee of the Directors or General Meetings or separate meetings of any class of members or debentures or otherwise in connection with the business of the Company.

68 Directors' pensions and other benefits

The Directors shall have power to pay and agree to pay a Director's remuneration. A Director's remuneration may include the payment of gratuities, allowances, pensions or other retirement, superannuation, death, sickness or disability benefits to, or to any person in respect of, that Director.

69 Appointment of executive Directors and Chairman

69.1 The Directors may from time to time appoint one or more of them to be the holder of any executive office (or, where considered appropriate, the office of Chairman or Deputy Chairman) on such terms and for such period as they may (subject to the provisions of the Legislation) resolve and, without prejudice to the terms of any contract entered into in any particular case, may at any time revoke or vary the terms of any such appointment.

69.2 The appointment of any Director to the office of Chairman or Deputy Chairman or Managing or Joint Managing or Deputy or Assistant Managing Director shall automatically terminate if such Director ceases to be a Director but without prejudice to any claim for damages for breach of any contract of service between such Director and the Company.

69.3 The appointment of any Director to any other executive office shall not automatically terminate if such Director ceases to be a Director for any reason, unless the contract or resolution under which such Director holds office shall expressly state otherwise, in which event such termination shall be without prejudice to any claim for damages for breach of any contract of service between such Director and the Company.

70 Powers of executive Directors

The Directors may entrust to and confer upon any Director holding any executive office any of the powers exercisable by them as Directors upon such terms and conditions and with such restrictions as they think fit, and either collaterally with or to the exclusion of their own powers. They may from time to time revoke, withdraw, alter or vary all or any of such delegated powers.

Appointment and Retirement of Directors

71 Election or appointment of additional Director

71.1 The Company may by ordinary resolution elect, and the Directors shall have power at any time to appoint, any person to be a Director either to fill a casual vacancy or as an additional Director, but not so that the total number of Directors shall exceed the maximum number fixed by or in accordance with these Articles.

71.2 Any person so appointed by the Directors shall retire at the next Annual General Meeting and shall then be eligible for election.

71.3 No person shall be elected as a Director unless such person is recommended by the Board or the Company has received from such person confirmation in writing of that person's willingness to be elected as a Director, no later than seven days before the General Meeting at which the relevant resolution is proposed.

72 Retirement at Annual General Meetings

72.1 Each Director shall retire at the Annual General Meeting held in the third calendar year following the year in which the Director was elected or last re-elected by the Company, or at such earlier Annual General Meeting as the Directors may resolve.

72.2 A Director who retires at any Annual General Meeting shall be eligible for election or re-election unless the Directors resolve otherwise not later than the date of the notice of such Annual General Meeting.

73 Re-election of retiring Director

73.1 Where a Director retires at an Annual General Meeting in accordance with Article 72.1 or **Error! Reference source not found.**, or otherwise, the Company may at the meeting by ordinary resolution fill the office being vacated by electing the retiring Director (if eligible for re-election). In the absence of such a resolution the retiring Director shall nevertheless be deemed to have been re-elected except in any of the following cases:

73.1.1 where at such meeting a resolution for the re-election of such Director is put to the meeting and lost;

73.1.2 where such Director is ineligible for re-election or has given notice in writing to the Company that he/she is unwilling to be re-elected; or

73.1.3 where a resolution to elect such Director is void by reason of contravention of Section 160 of the Companies Act 2006.

73.2 The retirement shall not have effect until the conclusion of the meeting except where a resolution is passed to elect some other person in the place of the retiring Director or a resolution for the retiring Director's re-election is put to the meeting and lost. Accordingly a retiring Director who is re-elected or deemed to have been re-elected will continue in office without a break.

74 Termination of office

74.1 The office of a Director is terminated if:

74.1.1 the Director becomes prohibited by law from acting as a Director or ceases to be a Director by virtue of any provision of the Companies Act 2006;

74.1.2 the Company has received notice of the Director's resignation or retirement from office and such resignation or retirement from office has taken effect in accordance with its terms;

74.1.3 the Director has retired at an Annual General Meeting in accordance with Article 72.1 or **Error! Reference source not found.**, or otherwise, and any of Articles 73.1.1, 73.1.2 or 73.1.3 applies.

74.1.4 the Director has a bankruptcy order made against him/her, compounds with his/her creditors generally or applies to the court for an interim order under Section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that Act or any analogous event occurs in relation to the Director in another country;

74.1.5 an order is made by any court claiming jurisdiction in that behalf on the ground (however formulated) of mental disorder for the Director's detention or for the appointment of another person (by whatever name called) to exercise powers with respect to the Director's property or affairs;

74.1.6 the Director is absent from meetings of the Directors for six months without permission and the Directors have resolved that the Director's office be vacated;

74.1.7 notice of termination is served or deemed served on the Director and that notice is given by all the Director's co-Directors for the time being; or

74.1.8 in the case of a Director other than the Chairman and any director holding an executive office, if the Directors resolve to require the Director to resign and the Director fails to do so within 30 days of notification of such resolution being served or deemed served on the Director.

74.2 If a Director holds an appointment to an executive office which automatically terminates on termination of the Director's office as Director, the Director's removal from office pursuant to this Article 74 shall be deemed an act of the Company and shall have effect without prejudice to any claim for damages for breach of any contract of service between the Director and the Company.

75 Removal of Director by resolution of Company

In accordance with and subject to the provisions of the Legislation, the Company may remove any Director from office by ordinary resolution of which special notice has been given and elect another person in place of a Director so removed from office. Such removal may take place notwithstanding any provision of these Articles or of any agreement between the Company and such Director, but shall be without prejudice to any claim the Director may have for damages for breach of any such agreement.

Meetings and Proceedings of Directors

76 Convening of meetings of Directors

76.1 Subject to the provisions of these Articles the Directors may meet together for the despatch of business, adjourn and otherwise regulate their proceedings as they think fit. At any time any Director may, and the Secretary at the request of a Director shall, call a meeting of the Directors by giving notice to the other Directors. Notice need not be in writing and may be sent to any address provided by the Director.

76.2 Any Director may waive notice of any meeting and any such waiver may be retroactive.

76.3 The Directors shall be deemed to meet together if they are in separate locations, but are linked by conference telephone or other communication equipment which allows those participating to hear and speak to each other, and a quorum in that event shall be two Directors so linked (or such other number fixed from time to time by the Directors). Such a meeting shall be deemed to take place where the largest group of Directors participating is assembled or, if there is no such group, where the Chairman of the meeting then is.

77 Quorum

The quorum necessary for the transaction of business of the Directors may be fixed from time to time by the Directors and unless so fixed at any other number shall be two. A meeting of the Directors at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Directors.

78 Chairman

78.1 The Directors may elect from their number a Chairman and a Deputy Chairman (or two or more Deputy Chairmen) and decide the period for which each is to hold office. If no Chairman or Deputy Chairman has been appointed or if at any meeting of the Directors no Chairman or Deputy Chairman is present within five minutes after the time appointed for holding the meeting, the Directors present may choose one of their number to be Chairman of the meeting.

78.2 If at any time there is more than one Deputy Chairman the right, in the absence of the Chairman, to preside at a meeting of the Directors or of the Company shall be determined as between the Deputy Chairmen present (if more than one) by seniority in length of appointment or otherwise as resolved by the Directors.

79 Casting vote

Questions arising at any meeting of the Directors shall be determined by a majority of votes. In the case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.

80 Number of Directors below minimum

If and so long as the number of Directors is reduced below the minimum number fixed by or in accordance with these Articles the continuing Directors or Director may act for the purpose of appointing such number of additional Directors as is required to meet the minimum or of summoning General Meetings, but not for any other purpose. If no Directors or Director is able or willing to act, then any two members may summon a General Meeting for the purpose of appointing Directors.

81 Directors' written resolutions

81.1 Any Director may, and the Secretary at the request of a Director shall, propose a written resolution by giving written notice to the other Directors.

81.2 A Directors' written resolution is adopted when all the Directors who would have been entitled to vote on such resolution if it had been proposed at a meeting of the Directors have:

81.2.1 signed one or more copies of it; or

81.2.2 otherwise indicated their agreement to it in writing.

81.3 A Directors' written resolution is not adopted if the number of Directors who have signed it is less than the quorum for Directors' meetings.

81.4 Once a Directors' written resolution has been adopted, it must be treated as if it had been a resolution passed at a Directors' meeting in accordance with the Articles.

82 Validity of proceedings

All acts done by any meeting of Directors, or of any committee or sub-committee of the Directors, or by any person acting as a member of any such committee or sub-committee, shall as regards all persons dealing in good faith with the Company be valid, notwithstanding that there was some defect in the appointment of any Director or any such persons, or that any such persons were disqualified or had vacated office, or were not entitled to vote.

Directors' Interests

83 Authorisation of Directors' interests

83.1 For the purposes of Section 175 of the Companies Act 2006, the Directors shall have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a Director to avoid a situation in which the Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

83.2 Authorisation of a matter under this Article 83 shall be effective only if:

83.2.1 the matter in question shall have been proposed in writing for consideration at a meeting of the Directors, in accordance with the Board's normal procedures or in such other manner as the Directors may resolve;

83.2.2 any requirement as to the quorum at the meeting of the Directors at which the matter is considered is met without counting the Director in question and any other interested Director (together the "**Interested Directors**"); and

83.2.3 the matter was agreed to without the Interested Directors voting or would have been agreed to if the votes of the Interested Directors had not been counted.

83.3 Any authorisation of a matter under this Article 83 may:

83.3.1 extend to any actual or potential conflict of interest which may arise out of the matter so authorised;

83.3.2 be subject to such conditions or limitations as the Directors may resolve, whether at the time such authorisation is given or subsequently; and

83.3.3 be terminated by the Directors at any time;

and a Director shall comply with any obligations imposed on the Director by the Directors pursuant to any such authorisation.

83.4 A Director shall not, save as otherwise agreed by such Director, be accountable to the Company for any benefit which the Director (or a person connected with the Director) derives from any matter authorised by the Directors under this Article 83 and any contract, transaction or arrangement relating to such a matter shall not be liable to be avoided on the grounds of any such benefit.

84 Permitted Interests

84.1 Subject to compliance with Article 84.2, a Director, notwithstanding such Director's office, may have an interest of the following kind:

84.1.1 where a Director (or a person connected with the Director) is a director or other officer of, or employed by, or otherwise interested (including by the holding of shares) in any Relevant Company;

84.1.2 where a Director (or a person connected with the Director) is a party to, or otherwise interested in, any contract, transaction or arrangement with a Relevant Company, or in which the Company is otherwise interested;

84.1.3 where the Director (or a person connected with the Director) acts (or any firm of which the Director is a partner, employee or member acts) in a professional capacity for any Relevant Company (other than as Auditor) whether or not the Director or it is remunerated for such work;

84.1.4 where a Director is or becomes a director or officer of any other body corporate in which the Company does not have an interest if that cannot reasonably be regarded as likely to give rise to a conflict of interest at the time of the Director's appointment as director or officer of that other body corporate;

84.1.5 where a Director has an interest which cannot reasonably be regarded as likely to give rise to a conflict of interest;

84.1.6 where a Director has an interest, or a transaction or arrangement giving rise to an interest, of which the Director is not aware; or

84.1.7 where a Director has any other interest authorised by ordinary resolution.

No authorisation under Article 83 shall be necessary in respect of any such interest.

84.2 A Director shall declare the nature and extent of any interest permitted under Article 84.1, and not falling with Article 84.3, at a meeting of the Directors or in such other manner as the Directors may resolve.

84.3 No declaration of an interest shall be required by a Director in relation to an interest:

84.3.1 falling within Article 84.1.5 or Article 84.1.6;

84.3.2 if, or to the extent that, the other Directors are already aware of such interest (and for this purpose the other Directors are treated as aware of anything of which they ought reasonably to be aware); or

84.3.3 if, or to the extent that, it concerns the terms of the Director's service contract (as defined in Section 227 of the Companies Act 2006) that have been or are to be considered by a meeting of the Directors, or by a committee of Directors appointed for the purpose under these Articles.

84.4 A Director shall not, save as otherwise agreed by the Director, be accountable to the Company for any benefit which the Director (or a person connected with the Director) derives from any such contract, transaction or arrangement or from any such office or employment or from any interest in any Relevant Company or for such remuneration, each as referred to in Article 84.1, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.

84.5 For the purposes of this Article 84, "**Relevant Company**" shall mean:

84.5.1 the Company;

84.5.2 a subsidiary undertaking of the Company;

84.5.3 any parent undertaking of the Company or a subsidiary undertaking of any such parent undertaking;

84.5.4 any body corporate promoted by the Company; or

84.5.5 any body corporate in which the Company is otherwise interested.

85 Restrictions on quorum and voting

85.1 Save as provided in this Article 85, and whether or not the interest is one which is authorised pursuant to Article 83 or permitted under Article 84, a Director shall not be entitled to vote on any resolution in respect of any contract, transaction or arrangement, or any other proposal, in which the Director (or a person connected with the Director) is interested. Any vote of a Director in respect of a matter where the Director is not entitled to vote shall be disregarded.

85.2 A Director shall not be counted in the quorum at a meeting of the Directors in relation to any resolution on which the Director is not entitled to vote.

85.3 Subject to the provisions of the Legislation, a Director shall (in the absence of some other interest than is set out below) be entitled to vote, and be counted in the quorum, in respect of any resolution concerning any contract, transaction or arrangement, or any other proposal:

85.3.1 in which the Director has an interest of which the Director is not aware;

85.3.2 in which the Director has an interest which cannot reasonably be regarded as likely to give rise to a conflict of interest;

85.3.3 in which the Director has an interest only by virtue of interests in shares, debentures or other securities of the Company, or by reason of any other interest in or through the Company;

85.3.4 which involves the giving of any security, guarantee or indemnity to the Director or any other person in respect of (i) money lent or obligations incurred by the Director or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or other obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

85.3.5 concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings (i) in which offer the Director is or may be entitled to participate as a holder of securities or (ii) in the underwriting or sub-underwriting of which the Director is to participate;

85.3.6 concerning any other body corporate in which the Director is interested, directly or indirectly and whether as an officer, shareholder, creditor, employee or otherwise, provided that the Director (together with persons connected with the Director) is not the holder of, or beneficially interested in, one per cent or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of the relevant body corporate;

85.3.7 relating to an arrangement for the benefit of the employees or former employees of the Company or any of its subsidiary undertakings which does not award the

Director any privilege or benefit not generally awarded to the employees or former employees to whom such arrangement relates;

85.3.8 concerning the purchase or maintenance by the Company of insurance for any liability for the benefit of Directors or for the benefit of persons who include Directors;

85.3.9 concerning the giving of indemnities in favour of Directors;

85.3.10 concerning the funding of expenditure by any Director or Directors on (i) defending criminal, civil or regulatory proceedings or action against the Director or them, (ii) in connection with an application to the court for relief, or (iii) defending the Director or them in any regulatory investigations;

85.3.11 concerning the doing of anything to enable any Director or Directors to avoid incurring expenditure as described in Article 85.3.10; and

85.3.12 in respect of which the Director's interest, or the interest of Directors generally, has been authorised by ordinary resolution.

85.4 Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any body corporate in which the Company is interested, the proposals may be divided and considered in relation to each Director separately. In such case each of the Directors concerned (if not debarred from voting under Article 85.1) shall be entitled to vote, and be counted in the quorum, in respect of each resolution except that concerning the Director's own appointment or the fixing or variation of the terms of the Director's own appointment.

85.5 If a question arises at any time as to whether any interest of a Director prevents the Director from voting, or being counted in the quorum, under this Article 85, and such question is not resolved by the Director voluntarily agreeing to abstain from voting, such question shall be referred to the Chairman of the meeting and the Chairman's ruling in relation to any Director other than the Chairman shall be final and conclusive except in a case where the nature or extent of the interest of such Director has not been fairly disclosed. If any such question shall arise in respect of the Chairman of the meeting, the question shall be decided by resolution of the Directors and the resolution shall be conclusive except in a case where the nature or extent of the interest of the Chairman of the meeting (so far as it is known to the Chairman) has not been fairly disclosed to the Directors.

86 Confidential information

86.1 Subject to Article 86.2, if a Director, otherwise than by virtue of the Director's position as Director, receives information in respect of which the Director owes a duty of confidentiality to a person other than the Company, the Director shall not be required:

86.1.1 to disclose such information to the Company or to the Directors, or to any Director, officer or employee of the Company; or

86.1.2 otherwise use or apply such confidential information for the purpose of or in connection with the performance of the Director's duties as a Director.

86.2 Where such duty of confidentiality arises out of a situation in which the Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, Article 86.1 shall apply only if the conflict arises out of a matter which has been authorised under Article 83 or falls within Article 84.

86.3 This Article 86 is without prejudice to any equitable principle or rule of law which may excuse or release the Director from disclosing information, in circumstances where disclosure may otherwise be required under this Article 86.

87 Directors' interests - general

87.1 For the purposes of Articles 83 to 87 a person is connected with a Director if that person is connected for the purposes of Section 252 of the Companies Act 2006.

87.2 Where a Director has an interest which can reasonably be regarded as likely to give rise to a conflict of interest, the Director may, and shall if so requested by the Directors, take such additional steps as may be necessary or desirable for the purpose of managing such conflict of interest, including compliance with any procedures laid down from time to time by the Directors for the purpose of managing conflicts of interest generally and/or any specific procedures approved by the Directors for the purpose of or in connection with the situation or matter in question, including:

87.2.1 not attending any meetings of the Directors at which the relevant situation or matter falls to be considered; and

87.2.2 not reviewing documents or information made available to the Directors generally in relation to such situation or matter and/or arranging for such documents or information to be reviewed by a professional adviser to ascertain the extent to which it might be appropriate for the Director concerned to have access to such documents or information.

87.3 The Company may by ordinary resolution ratify any contract, transaction or arrangement, or other proposal, not properly authorised by reason of a contravention of any provisions of Articles 83 to 87.

Powers of Directors

88 General powers

The Directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Legislation or by these Articles to be exercised by the Company in General Meeting.

89 Provision for employees on cessation or transfer of business

The Directors may make provision for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries (other than a Director, former Director or shadow director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company or that subsidiary.

90 Bank mandates

The Directors may by resolution authorise such person or persons as they think fit to act as signatories to any bank account of the Company and may amend or remove such authorisation from time to time by resolution.

91 Power to borrow and grant security

The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, guarantee, liability or obligation of the Company or of any third party.

Delegation of Powers

92 Appointment and constitution of committees

92.1 The Directors may delegate any of their powers or discretions (including all powers and discretions whose exercise involves or may involve the payment of remuneration to or the conferring of any other benefit on all or any of the Directors) to such person (who need not be a Director) or committee (comprising any number of persons, who need not be Directors) and in such manner as they think fit. Any such delegation may be either collaterally with or to the exclusion of their own powers and the Directors may revoke or alter the terms of any such delegation. Any such person or committee shall, unless the Directors otherwise resolve, have power to sub-delegate any of the powers or discretions delegated to them.

92.2 Any reference in these Articles to the exercise of a power or discretion by the Directors shall include a reference to the exercise of such power or discretion by any person or committee to whom it has been delegated.

92.3 The Directors may make regulations in relation to the proceedings of committees or sub-committees. Subject to any such regulations, the meetings and proceedings of any committee or sub-committee consisting of two or more persons shall be governed by the provisions of these Articles regulating the meetings and proceedings of the Directors (with such amendments as are necessary).

93 Local boards and managers

93.1 The Directors may establish any local boards or appoint managers or agents to manage any of the affairs of the Company, either in the United Kingdom or elsewhere, and may:

93.1.1 appoint any persons to be managers or agents or members of such local boards, and may fix their remuneration;

93.1.2 delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the Directors, with power to sub-delegate;

93.1.3 remove any person so appointed, and may annul or vary any such delegation; and

93.1.4 authorise the members of any local boards, or any of them, to fill any vacancies on such boards, and to act notwithstanding vacancies.

93.2 Any such appointment or delegation may be made upon such terms and subject to such conditions as the Directors may think fit.

94 Appointment of attorney

94.1 The Directors may from time to time and at any time appoint any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit.

94.2 Any such appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit.

94.3 The Directors may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in the attorney.

Alternate Directors

95 Alternate Directors

95.1 Any Director may at any time appoint any person (including another Director) to be the Director's alternate Director and may at any time terminate such appointment. Such appointment or termination of appointment must be made by notice in writing signed by the Director concerned and deposited at the Office or delivered at a meeting of the Directors. Unless previously approved by the Directors or unless the appointee is another Director, the appointment of an alternate shall have effect only once it has been approved.

95.2 The appointment of an alternate Director shall terminate:

95.2.1 on the happening of any event referred to in Articles 74.1.1, 74.1.4 or 74.1.5 in relation to that alternate Director; or

95.2.2 if the alternate's appointor ceases to be a Director, otherwise than by retirement at a General Meeting at which the appointor is re-elected.

95.3 An alternate Director shall be entitled to receive notices of meetings of the Directors and shall be entitled to attend and vote as a Director at any such meeting at which the Director appointing the alternate is not personally present and generally at such meetings to perform all functions of the appointor as a Director. For the purposes of the proceedings at such meetings, the provisions of these Articles shall apply as if the alternate (instead of the appointor) were a Director.

95.4 If an alternate is also a Director or shall attend any such meeting as an alternate for more than one Director, the alternate's voting rights shall be cumulative but the alternate shall not be counted more than once for the purposes of the quorum.

95.5 If the alternate's appointor is for the time being temporarily unable to act through ill health or disability an alternate's signature to any resolution in writing of the Directors shall be as effective as the signature of the appointor.

95.6 This Article 95 shall also apply (with such changes as are necessary) to such extent as the Directors may from time to time resolve to any meeting of any committee of the Directors of which the appointor of an alternate Director is a member.

95.7 An alternate Director shall not (except as otherwise provided in this Article 95) have power to act as a Director, nor shall the alternate be deemed to be a Director for the purposes of these Articles, nor shall the alternate be deemed to be the agent of the appointor.

95.8 An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified to the same extent as if the alternate were a Director.

95.9 An alternate shall not be entitled to receive remuneration from the Company in respect of the alternate's appointment as alternate Director except to the extent the alternate's appointor directs the Company by written notice to pay to the alternate some of the remuneration otherwise payable to that Director.

96 Associate and other directors

The Directors may from time to time, and at any time, pursuant to this Article 96 appoint any other persons to any post with such descriptive title including that of director (whether as associate, executive, group, divisional, departmental, deputy, assistant, local or advisory Director or otherwise) as the Directors may determine and may define, limit, vary and restrict the powers, authorities and discretions of persons so appointed and may fix and determine their remuneration and duties, and subject to any contract between him and the Company, may remove from such post any person so appointed. A person so appointed shall not be a Director for any of the purposes of these Articles or of the Act, and accordingly shall not be a member of the Board or (subject to Article 92) of any committee thereof, nor shall he be entitled to be present at any meeting of the Directors or of any such committee, except at the request of the Directors or of such committee, and if present at such request he shall not be entitled to vote thereat.

Secretary

97 Secretary

The Secretary shall be appointed by the Directors on such terms and for such period as they may think fit. Any Secretary so appointed may at any time be removed from office by the Directors, but without prejudice to any claim for damages for breach of any contract of service between the Secretary and the Company. If thought fit, two or more persons may be appointed as Joint Secretaries. The Directors may also appoint from time to time, on such terms as they may think fit, one or more Deputy and/or Assistant Secretaries.

The Seal

98 The Seal

98.1 The Directors shall provide for the safe custody of the Seal and any Securities Seal and neither shall be used without the authority of the Directors or of a committee authorised by the Directors in that behalf. The Securities Seal shall be used only for sealing securities issued by the Company and documents creating or evidencing securities so issued.

98.2 Every instrument to which the Seal or the Securities Seal shall be affixed (other than a certificate for or evidencing shares, debentures or other securities (including options) issued by the Company) shall be signed autographically by one Director and the Secretary or by two Directors or by a Director or other person authorised for the purpose by the Directors in the presence of a witness.

98.3 The Company may exercise the powers conferred by the Legislation with regard to having an official seal for use abroad and such powers shall be vested in the Directors.

98.4 Any instrument signed by:

98.4.1 one Director and the Secretary; or

98.4.2 by two Directors; or

98.4.3 by a Director in the presence of a witness who attests the signature,

and expressed to be executed by the Company shall have the same effect as if executed under the Seal.

Authentication of Documents

99 Authentication of documents

99.1 Any Director or the Secretary or any person appointed by the Directors for the purpose shall have power to authenticate:

99.1.1 any document affecting the constitution of the Company;

99.1.2 any resolution passed at a General Meeting or at a meeting of the Directors or any committee; and

99.1.3 any book, record, document or account relating to the business of the Company,

and to certify copies or extracts as true copies or extracts.

99.2 Where any book, record, document or account is elsewhere than at the Office the local manager or other officer of the Company having the custody of it shall be deemed to be a person appointed by the Directors for the purpose of Article 99.1.

99.3 A document purporting to be a copy of any such resolution, or an extract from the minutes of any such meeting, which is certified shall be conclusive evidence in favour of all persons dealing with the Company that such resolution has been duly passed or, as the case may be, that any minute so extracted is a true and accurate record of proceedings at a duly constituted meeting.

Dividends

100 Declaration of final dividends

100.1 The Company may by ordinary resolution declare final dividends.

100.2 No dividend shall be declared unless it has been recommended by the Directors and does not exceed the amount recommended by the Directors.

101 Fixed and interim dividends

101.1 If and so far as in the opinion of the Directors the profits of the Company justify such payments, the Directors may:

101.1.1 pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the dates prescribed for the payment of such dividends; and

101.1.2 pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

101.2 Provided the Directors act in good faith they shall not incur any liability to the holders of any shares for any loss they may suffer by the lawful payment of any fixed or interim dividend on any other class of shares having rights ranking after or equal with those shares.

102 Distribution *in specie*

102.1 Without prejudice to Article 100, the Company may by ordinary resolution direct payment of a dividend in whole or in part by the transfer of specific assets, or by procuring the receipt by shareholders of specific assets, of equivalent value (including paid-up shares or debentures of any other company) and the Directors shall give effect to such resolution.

102.2 Where any difficulty arises in regard to such distribution, the Directors may make such arrangements as they think fit, including:

102.2.1 issuing fractional certificates;

102.2.2 fixing the value of any of the assets to be transferred;

102.2.3 paying cash to any member on the basis of the value fixed for the assets in order to adjust the rights of members; and

102.2.4 vesting any assets in trustees.

103 Ranking of shares for dividend

103.1 Unless and to the extent that the rights attached to any shares or the terms of issue of those shares provide otherwise, all dividends shall be:

103.1.1 declared and paid according to the amounts paid up on the shares on which the dividend is paid; and

103.1.2 apportioned and paid proportionately to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid.

103.2 If the terms of issue of a share provide that it ranks for dividends as from a particular date then that share will rank for dividends as from that date.

103.3 For the purposes of this Article 103, no amount paid on a share in advance of the date on which such payment is due shall be treated as paid on the share.

104 Manner of payment of dividends

104.1 Any dividend or other sum payable on or in respect of a share shall be paid to:

104.1.1 the holder of that share;

104.1.2 if the share is held by more than one person, whichever of the joint holders' names appears first in the Register;

104.1.3 if the member is no longer entitled to the share, the person or persons entitled to it; or

104.1.4 such other person or persons as the member (or, in the case of joint holders of a share, all of them) may direct,

and such person shall be the "**payee**" for the purpose of this Article 104.

104.2 Such dividend or other sum may be paid:

104.2.1 by cheque sent by post to the payee or, where there is more than one payee, to any one of them at the address shown in the Register or such address as that person notifies the Company in writing;

104.2.2 by bank transfer to such account as the payee or payees shall in writing direct;

104.2.3 (if so authorised by the holder of shares in uncertificated form) using the facilities of a relevant system (subject to the facilities and requirements of the relevant system); or

104.2.4 by such other method of payment as the payee or payees and the Directors may agree.

104.3 Subject to the provisions of these Articles and to the rights attaching to any shares, any dividend or other sum payable on or in respect of a share may be paid in such currency as the Directors may resolve, using such exchange rate for currency conversions as the Directors may select.

105 Record date for dividends

105.1 Any resolution for the declaration or payment of a dividend on shares of any class may specify that the dividend shall be payable to the persons registered as the holders of such shares at a specified time on a particular date (the "**Record Date**").

105.2 If no Record Date is specified then, unless the terms of issue of the shares in question provide otherwise, the dividend shall be paid by reference to each member's holding of shares at close of business on the date of the ordinary resolution (in the case of a final dividend) or board resolution (in the case of an interim dividend) approving the payment of that dividend.

105.3 The Record Date may be a date prior to that on which the resolution is passed.

106 No interest on dividends

The Company shall not pay interest on any dividend or other sum payable on or in respect of a share unless the terms of issue of that share or the provisions of any agreement between the Company and the holder of that share provide otherwise.

107 Retention of dividends

107.1 The Directors may retain all or part of any dividend or other sum payable on or in respect of a share on which the Company has a lien in respect of which the Directors are entitled to issue an enforcement notice.

107.2 The Company shall apply any amounts retained pursuant to Article 107.1 in or towards satisfaction of the moneys payable to the Company in respect of that share.

107.3 The Company shall notify the person otherwise entitled to payment of the sum that it has been retained and how the retained sum has been applied.

107.4 The Directors may retain the dividends payable upon shares:

107.4.1 in respect of which any person is entitled to become a member pursuant to Article 35 until such person shall become a member in respect of such shares; or

107.4.2 which any person is entitled to transfer pursuant to Article 35 until such person has transferred those shares.

108 Unclaimed dividend

108.1 The Company may cease to send any cheque or other means of payment by post for any dividend on any shares which is normally paid in that manner if in respect of at least two consecutive dividends payable on those shares the cheque, warrant or order has been returned undelivered or remains uncashed but, subject to the provisions of these Articles, shall recommence sending cheques, warrants or orders in respect of the dividends payable on those shares if the holder of or person entitled to them claims the arrears of dividend and does not instruct the Company to pay future dividends in some other way.

108.2 Any unclaimed dividends may be invested or otherwise applied for the benefit of the Company until they are claimed.

108.3 The payment by the Directors of any unclaimed dividend or other sum payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect of that amount.

108.4 If a dividend remains unclaimed after a period of 12 years from the date on which it was declared or became due for payment the person who was otherwise entitled to it shall cease to be entitled and the Company may keep that sum.

109 Waiver of dividend

109.1 A shareholder or other person entitled to a dividend may waive it in whole or in part.

109.2 The waiver of any dividend shall be effective only if such waiver is in writing and signed or authenticated in accordance with Article 117 by the shareholder or the person entitled to the dividend and delivered to the Company.

Scrip Dividends

110 Scrip Dividends

110.1 The Directors may offer to ordinary shareholders the right to elect to receive an allotment of new ordinary shares ("**Scrip Shares**") credited as fully paid in lieu of the whole or part of a dividend.

110.2 The Directors shall not allot Scrip Shares unless so authorised by ordinary resolution. Such a resolution may give authority in relation to particular dividends or may extend to all dividends declared or paid in the period specified in the resolution. Such period may not be longer than five years from the date of the resolution.

110.3 The Directors may, without the need for any further ordinary resolution, offer rights of election in respect of any dividend declared or proposed after the date of the adoption of these Articles and at or prior to the next Annual General Meeting.

110.4 The Directors may offer such rights of election to shareholders either:

110.4.1 in respect of the next dividend proposed to be paid; or

110.4.2 in respect of that dividend and all subsequent dividends, until such time as the election is revoked or the authority given pursuant to Article 110.2 expires without being renewed (whichever is the earlier).

110.5 The number of the Scrip Shares to be allotted in lieu of any amount of dividend shall be decided by the Directors and shall be such whole number of ordinary shares as have a value equal to or as near as possible to but in no event greater than such amount. For such purpose, the value of an ordinary share shall be the average of the middle market quotations of an ordinary share on the London Stock Exchange, as derived from the Daily Official List, on each of the first five dealing days on which the ordinary shares are quoted as being "ex" the relevant dividend. No fraction of an ordinary share shall be allotted.

110.6 If the Directors resolve to offer a right of election they shall give written notice of such right to the ordinary shareholders specifying the procedures to be followed in order to exercise such right. No notice need be given to a shareholder who has previously made, and has not revoked, an earlier election to receive ordinary shares in lieu of all future dividends, but instead shall send such shareholder a reminder of the election made, indicating how that election may be revoked in time for the next dividend proposed to be paid.

110.7 If a member has elected to receive Scrip Shares in place of a dividend, that dividend (or that part of the dividend in respect of which a right of election has been given) shall not be payable on ordinary shares in respect of which the share election has been duly exercised and has not been revoked (the "**elected Ordinary Shares**"). In place of such dividend, the following provisions shall apply:

110.7.1 such number of Scrip Shares as are calculated in accordance with Article 110.5 shall be allotted to the holders of the elected Ordinary Shares;

110.7.2 unless the CREST Regulations require otherwise, if the elected Ordinary Shares are in uncertificated form on the Record Date then the Scrip Shares shall be issued as uncertificated shares;

110.7.3 if the elected Ordinary Shares are in certificated form on the Record Date then the Scrip Shares shall be issued as certificated shares;

110.7.4 the Directors shall capitalise in accordance with the provisions of Article 8 a sum equal to the aggregate nominal amount of the Scrip Shares to be allotted and shall apply that sum in paying up in full the appropriate number of new ordinary shares for allotment and distribution to and amongst the holders of the elected Ordinary Shares; and

110.7.5 the Scrip Shares allotted shall rank equally in all respects with the fully paid ordinary shares then in issue save only as regards participation in the relevant dividend.

110.8 No fraction of an ordinary share shall be allotted. The Directors may make such provision as they think fit for any fractional entitlements including that the whole or part of the benefit of those fractions accrues to the Company or that the fractional entitlements are accrued and/or retained on behalf of any ordinary shareholder.

110.9 The Directors may resolve that rights of election shall not be made available to any ordinary shareholders with registered addresses outside the United Kingdom where the Directors think fit in order to comply with, or avoid the requirements of, the laws or regulations of any territory or any regulatory body or stock exchange.

110.10 In relation to any particular proposed dividend, the Directors may in their absolute discretion resolve and shall so resolve if the Company has insufficient reserves or otherwise does not have the necessary authorities or approvals to issue new ordinary shares:

110.10.1 that shareholders shall not be entitled to make any election to receive shares in place of a cash dividend and that any election previously made shall not extend to such dividend; or

110.10.2 at any time prior to the allotment of the ordinary shares which would otherwise be allotted in lieu of that dividend, that all elections to take shares shall be treated as not applying to that dividend,

and if so the dividend shall be paid in cash as if no elections had been made in respect of it.

Accounts

111 Accounting records

Accounting records sufficient to show and explain the Company's transactions and otherwise complying with the Legislation shall be kept at the Office, or at such other place as the Directors think fit. No person shall have any right simply by virtue of being a member to inspect any account or book or document of the Company except as conferred by the Legislation or ordered by a court of competent jurisdiction or authorised by the Directors.

Communications with Members

112 Service of notices

112.1 The Company may, subject to and in accordance with the Legislation and these Articles, send or supply all types of notices, documents or information to members by electronic means and/or by making such notices, documents or information available on a website.

112.2 The Company Communications Provisions have effect, subject to the provisions of Articles 112 to 114, for the purposes of any provision of the Companies Acts or these Articles that authorises or requires notices, documents or information to be sent or supplied by or to the Company.

112.3 Any notice, document or information (including a share certificate) which is sent or supplied by the Company in hard copy form, or in electronic form but to be delivered other than by electronic means, and which is sent by pre-paid post and properly addressed shall be deemed to have been received by the intended recipient at the expiration of 24 hours after the time it was posted (or 48 hours where first class mail or an equivalent service is not employed for members with a registered address in the UK).)In proving such receipt it shall be sufficient to show that such notice, document or information was properly addressed, pre-paid and posted.

112.4 Any notice, document or information which is sent or supplied by the Company by electronic means shall be deemed to have been received by the intended recipient 24 hours after it was transmitted, and in proving such receipt it shall be sufficient to show that such notice, document or information was properly addressed.

112.5 Any notice, document or information which is sent or supplied by the Company by means of a website shall be deemed to have been received when the material was first made available on the website or, if later, when the recipient received (or is deemed to have received) notice of the fact that the material was available on the website.

112.6 An accidental failure to send or subsequent late sending of, or non-receipt by any person entitled to, any notice of or other document or information relating to any meeting or other proceeding shall not invalidate the relevant meeting or proceeding.

112.7 The provisions of this Article 112 shall have effect in place of the Company Communications Provisions relating to deemed delivery of notices, documents or information.

113 Communication with joint holders

113.1 Anything which needs to be agreed or specified by the joint holders of a share shall for all purposes be taken to be agreed or specified by all the joint holders where it has been agreed or specified by the joint holder whose name stands first in the Register in respect of the share.

113.2 If more than one joint holder gives instructions or notifications to the Company pursuant to these Articles then save where these Articles specifically provide otherwise, the Company shall only recognise the instructions or notifications of whichever of the joint holders' names appears first in the Register.

113.3 Any notice, document or information which is authorised or required to be sent or supplied to joint holders of a share may be sent or supplied to the joint holder whose name stands first in the Register in respect of the share, to the exclusion of the other joint holders.

113.4 The provisions of this Article 113 shall have effect in place of the Company Communications Provisions regarding joint holders of shares.

113.5 If two or more persons are registered as joint holders of any share, or are entitled jointly to a share in consequence of the death or bankruptcy of the holder or otherwise by operation of law, any one of them may give instructions to the Company and give effectual receipts for any dividend or other moneys payable or property distributable on or in respect of the share.

114 Deceased and bankrupt members

114.1 A person who claims to be entitled to a share in consequence of the death or bankruptcy of a member or otherwise by operation of law shall supply to the Company:

114.1.1 such evidence as the Directors may reasonably require to show such person's title to the share; and

114.1.2 an address at which notices may be sent or supplied to such person.

114.2 Subject to complying with Article 114.1, such a person shall be entitled to:

114.2.1 have sent or supplied to such address any notice, document or information to which the relevant member would have been entitled. Any notice, document or information so sent or supplied shall for all purposes be deemed to be duly sent or supplied to all persons interested in the share (whether jointly with or as claiming through or under such person); and

114.2.2 give instructions or notifications to the Company pursuant to these Articles in relation to the relevant shares and the Company may treat such instruction or notification as duly given by all persons interested in the share (whether jointly with or as claiming through or under such person).

114.3 Unless a person entitled to the share has complied with Article 114.1, any notice, document or information sent or supplied to the address of any member pursuant to these Articles shall be deemed to have been duly sent or supplied in respect of any share registered in the name of such member as sole or first-named joint holder. This Article shall apply notwithstanding even if such member is dead or bankrupt or in liquidation, and whether or not the Company has notice of such member's death or bankruptcy or liquidation.

114.4 The provisions of this Article 114 shall have effect in place of the Company Communications Provisions regarding the death or bankruptcy of a member.

115 Failure to supply address

115.1 The Company shall not be required to send notices, documents or information to a member who (having no registered address within the United Kingdom) has not supplied to the Company either a postal address within the United Kingdom or an electronic address for the service of notices.

115.2 If the Company sends more than one document to a member on separate occasions during a 12-month period and each of them is returned undelivered then that member will not be entitled to receive notices from the Company until the member has supplied a new postal or electronic address for the service of notices.

116 Suspension of postal services

If at any time by reason of the suspension or curtailment of postal services within the United Kingdom the Company is unable to give notice by post in hard copy form of a General Meeting, such notice shall be deemed to have been given to all members entitled to receive such notice in hard copy form if such notice is advertised in at least one national newspaper and such notice shall be deemed to have been given on the day when the advertisement appears. In any such case, the Company shall (i) make such notice available on its website from the date of such advertisement until the conclusion of the meeting or any adjournment thereof and (ii) send confirmatory copies of the notice by post to such members if at least seven days prior to the meeting the posting of notices again becomes practicable.

117 Signature or authentication of documents sent by electronic means

Where these Articles require a notice or other document to be signed or authenticated by a member or other person, then any notice or other document sent or supplied in electronic form is sufficiently authenticated in any manner authorised by the Company Communications Provisions or in such other manner as may be approved by the Directors. The Directors may designate mechanisms for validating any such notice or other document, and any such notice or other document not so validated by use of such mechanisms shall be deemed not to have been received by the Company.

118 Statutory provisions as to notices

Nothing in any of Articles 112 to 117 shall affect any provision of the Legislation that requires or permits any particular notice, document or information to be sent or supplied in any particular manner.

Winding Up

119 Directors' power to petition

The Directors shall have power in the name and on behalf of the Company to present a petition to the Court for the Company to be wound up.

Destruction of Documents

120 Destruction of documents

120.1 The Company may destroy:

120.1.1 all instruments of transfer or other documents which have been registered or on the basis of which registration was made at any time after the expiration of six years from the date of registration;

120.1.2 all dividend mandates and notifications of change of address at any time after the expiration of two years from the date of recording of them;

120.1.3 all share certificates which have been cancelled at any time after the expiration of one year from the date of the cancellation; and

120.1.4 all proxy appointments from one year after the end of the meeting to which the appointment relates.

120.2 It shall conclusively be presumed in favour of the Company that:

120.2.1 every entry in the Register purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made;

120.2.2 every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered;

120.2.3 every share certificate so destroyed was a valid and effective certificate duly and properly cancelled; and

120.2.4 every other document mentioned in this Article 120 so destroyed was a valid and effective document in accordance with the recorded particulars in the books or records of the Company.

120.3 The provisions of this Article 120:

120.3.1 shall apply only to the destruction of a document in good faith and without express notice of any claim to which the document might be relevant; and

120.3.2 shall not be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than provided by this Article 120 or in any other circumstances, which would not attach to the Company in the absence of this Article 120.

120.4 Any document referred to in this Article 120 may, subject to the Legislation, be destroyed before the end of the relevant period so long as a copy of such document (whether made electronically or by any other means) has been made and is retained until the end of the relevant period.

120.5 References in this Article 120 to the destruction of any document include references to its disposal in any manner.

Directors' Liabilities

121 Indemnity

121.1 So far as may be permitted by the Legislation every Relevant Officer may be indemnified by the Company out of its own funds against:

121.1.1 any liability incurred by or attaching to the Relevant Officer in connection with any negligence, default, breach of duty or breach of trust by the Relevant Officer in relation to the Company or any Associated Company of the Company other than:

(i) any liability to the Company or any Associated Company; and

(ii) any liability of the kind referred to in Section 234(3) of the Companies Act 2006; and

121.1.2 any other liability incurred by or attaching to the Relevant Officer in relation to or in connection with the Relevant Officer's duties, powers or office, including in connection with the activities of the Company or an Associated Company in its capacity as a trustee of an occupational pension scheme.

121.2 Where a Relevant Officer is indemnified against any liability in accordance with this Article 121, such indemnity may extend to all costs, charges, losses, expenses and liabilities incurred by the Relevant Officer in relation thereto.

121.3 In this Article 121:

121.3.1 "**Associated Company**" shall have the same meaning as in Section 256 of the Companies Act 2006; and

121.3.2 "**Relevant Officer**" means a Director, former Director or Secretary of the Company or of an Associated Company of the Company.

122 Insurance

122.1 Without prejudice to Article 121, the Directors shall have power to purchase and maintain insurance for or for the benefit of:

122.1.1 any person who is or was at any time a Director or Secretary of any Relevant Company (as defined in Article 122.2); or

122.1.2 any person who is or was at any time a trustee of any pension fund or employees' share scheme in which employees of any Relevant Company are interested,

including insurance against any liability (including all costs, charges, losses and expenses in relation to such liability) incurred by or attaching to such person in relation to such person's duties, powers or offices in relation to any Relevant Company, or any such pension fund or employees' share scheme.

122.2 For the purpose of Article 122.1, "**Relevant Company**" shall mean:

122.2.1 the Company;

122.2.2 any parent undertaking of the Company;

122.2.3 any other body, whether or not incorporated, in which the Company or such parent undertaking or any of the predecessors of the Company or of such parent undertaking has or had any interest whether direct or indirect or which is in any way allied to or associated with the Company; or

122.2.4 any subsidiary undertaking of the Company or of such other body.

123 Defence expenditure

123.1 So far as may be permitted by the Legislation, the Company may:

123.1.1 provide a Relevant Officer with funds to meet expenditure incurred or to be incurred by the Relevant Officer:

(i) in defending any criminal or civil proceedings in connection with any negligence, default, breach of duty or breach of trust by the Relevant

Officer in relation to the Company or an Associated Company of the Company; or

(ii) in connection with any application for relief under the provisions mentioned in Section 205(5) of the Companies Act 2006; and

123.1.2 do anything to enable any such Relevant Officer to avoid incurring such expenditure.

123.2 The terms set out in Section 205(2) of the Companies Act 2006 shall apply to any provision of funds or other things done under Article 123.1.

123.3 So far as may be permitted by the Legislation, the Company:

123.3.1 may provide a Relevant Officer with funds to meet expenditure incurred or to be incurred by the Relevant Officer in defending himself/herself in an investigation by a regulatory authority or against action proposed to be taken by a regulatory authority in connection with any alleged negligence, default, breach of duty or breach of trust by the Relevant Officer in relation to the Company or any Associated Company of the Company; and

123.3.2 may do anything to enable any such Relevant Officer to avoid incurring such expenditure.

123.4 In this Article 123:

123.4.1 "**Associated Company**" shall have the same meaning as in Section 256 of the Companies Act 2006; and

123.4.2 "**Relevant Officer**" means a Director, former Director or Secretary of the Company or of an Associated Company of the Company.

APPENDIX III
PRIVATE PLACEMENT MEMORANDUM

STRICTLY PRIVATE AND CONFIDENTIAL

26 January 2016

Metro Bank PLC

(A public limited company incorporated in England and Wales on 6 November 2007 with registration number 6419578)

OFFER FOR SUBSCRIPTION

of 20,833,333 New Shares at £24 per New Share to raise £500 million
and up to an additional 4,166,666 New Shares at
£24 per New Share to raise up to an additional £100 million

Your attention is drawn to the Risk Factors in Part II of this Private Placement Memorandum.

Prospective investors who wish to subscribe for New Shares under the Offers are required to submit their Application Form during the Offer Period and to make payment of their Subscription Amount into the Subscription Account in Pounds Sterling in cleared funds on or before 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its sole discretion determine).

This is a confidential communication. This Private Placement Memorandum has been prepared by Metro Bank PLC (the "**Company**") solely in connection with the Offers as described herein. The only person authorised to distribute this Private Placement Memorandum is the Company and this Private Placement Memorandum must not be redistributed, forwarded or otherwise sent by any other person, directly or indirectly, in or into the United States or any other jurisdiction in which the distribution or release would be unlawful. This Private Placement Memorandum has not been approved by the FCA. The Offer has not been underwritten.

In relation to its acceptance of deposits, provision of investment services, consumer credit business and arranging and administering regulated mortgage contracts, the Company is authorised by the PRA and regulated by the FCA and PRA. The Company is also a member of the Financial Services Compensation Scheme and the Financial Ombudsman Service.

THE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), THE LAWS OF ANY STATE OF THE UNITED STATES OR THE LAWS OF ANY NON-U.S. JURISDICTION AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES.

Private Placement Advisers

RBC Capital Markets **BofA Merrill Lynch** **Goldman Sachs International**

Co- Private Placement Adviser

Keefe, Bruyette & Woods
(A Stifel Company)

Adviser

Moelis & Company

IMPORTANT INFORMATION: You must read the following before continuing. The following disclaimer applies to this Private Placement Memorandum and you are therefore advised to read this section carefully before reading, assessing or making any other use of this Private Placement Memorandum. In accessing this Private Placement Memorandum, you agree to be bound by the limitations contained in this Important Information, including any modifications to them from time to time, each time you receive any information from the Company as a result of such access. You acknowledge that delivery of this Private Placement Memorandum (whether in physical form or electronically) is intended for you only as the addressee and you agree that you will not forward this Private Placement Memorandum or, if applicable, an electronic transmission of this Private Placement Memorandum, to any other person (other than your professional advisers). This Private Placement Memorandum has been issued by the Company in connection with the Offers (as defined in this Private Placement Memorandum) and any circulation of and access to an electronic transmission of this Private Placement Memorandum has been and shall be limited so that neither the Offer nor the Top-Up Offer shall constitute a public offer or a general solicitation. This Private Placement Memorandum is being made available on the basis that the recipients keep confidential any information contained herein or otherwise made available, whether orally or in writing, in connection with the Company and its consolidated subsidiaries (together "**Metro Bank**"). This Private Placement Memorandum is confidential and must not be copied, reproduced, published, distributed, disclosed or passed to any other person at any time without the prior written consent of the Company.

This Private Placement Memorandum does not constitute, or form part of, any offer or invitation to sell or issue, or any solicitation of any offer to subscribe for, any Shares in any circumstances in which such offer or solicitation is unlawful.

If this Private Placement Memorandum has been made available to you in electronic form, you are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Company nor any person who controls it nor any director, officer, employee or agent of the Company or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the documents distributed to you in electronic format and the hard copy version available to you on request from the Company. You are responsible for protecting against viruses and other destructive items and any receipt of an electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Private Placement Memorandum is submitted to you on a confidential basis, among other things, for the purpose of evaluating an investment in the Shares. The information contained herein is intended solely for selected sophisticated investors having the necessary expertise to determine whether to accept the risks inherent in such an investment and does not constitute a prospectus or listing particulars relating to Metro Bank.

In making an investment decision in relation to the Shares, potential investors must rely on their own examination of Metro Bank, the Shares and the terms of the Offers described in this Private Placement Memorandum and any supplement thereto, including the supplemental Private Placement Memorandum to be dated on or about 16 February 2016 (the "**Supplemental Private Placement Memorandum**") which will contain Metro Bank's final unaudited financial information as of and for the three years ended 31 December 2015, as well as the merits and risks involved in an investment in the Shares. **If you are in any doubt about the contents of this Private Placement Memorandum, you should consult a stockbroker, bank manager, solicitor, accountant or other independent professional adviser who specialises in advising on dealings in such shares and other securities.**

No Director or any other person has been authorised to give any information or to make any representation other than as contained in this Private Placement Memorandum in connection with the

Offers and, if given or made, such information or representation must not be relied on as having been authorised by Metro Bank or any of the Directors. The delivery of this Private Placement Memorandum or the issue or delivery of Shares does not, under any circumstances, constitute a representation or warranty or create any implication that the information herein is correct as of any time subsequent to the date hereof.

RBC Europe Limited (trading as RBC Capital Markets) ("**RBC**"), Goldman Sachs International ("**Goldman Sachs**") and Merrill Lynch International ("**BofA Merrill Lynch**") have been appointed as Private Placement Advisers and Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods) ("**KBW**") has been appointed as Co-Private Placement Adviser and Moelis & Company UK LLP ("**Moelis & Company**") has been appointed as an adviser (the "**Adviser**"). Each of RBC, Goldman Sachs and BofA Merrill Lynch is authorised by the PRA and regulated in the UK by the PRA and the FCA. Each of KBW and the Adviser is authorised and regulated in the UK by the FCA. RBC, Goldman Sachs, BofA Merrill Lynch, KBW and Moelis & Company are each acting exclusively for the Company and no one else in connection with the Offers and they will not regard any other person (whether or not a recipient of this Private Placement Memorandum) as a client in relation to the Offers and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offers or any transaction or arrangement referred to in this Private Placement Memorandum.

The Private Placement Advisers, the Co-Private Placement Adviser, the Adviser and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company for which they would have received customary fees.

The contents of this Private Placement Memorandum should not be considered to be legal, tax, investment or other advice, and each potential investor should consult with its own counsel and advisers as to all legal, tax, regulatory, financial and related matters concerning an investment in Shares and as to its suitability for such investor. Further, potential investors should inform themselves as to the legal requirements and tax consequences within the countries of their citizenship, residence, domicile and place of business with respect to the acquisition, holding or disposal of Shares, and any foreign exchange restrictions that may be relevant thereto. None of the Company, the Directors, the Private Placement Advisers, the Co-Private Placement Adviser or the Adviser is making any representation to any offeree or purchaser of the Shares regarding the legality of an investment by such offeree or purchaser under the laws applicable to such offeree or purchaser. The Offers are not being underwritten by the Private Placement Advisers, the Co-Private Placement Adviser, the Adviser or by any other person. Neither the Private Placement Advisers, the Co-Private Placement Adviser nor the Adviser will be involved in settlement of transactions in the Shares in connection with the Offers.

No person receiving a copy of this Private Placement Memorandum in any territory may treat this Private Placement Memorandum as constituting an offer or invitation to that person to subscribe for Shares, nor should such person subscribe for Shares, unless in the relevant jurisdiction such an offer or invitation and subscription could lawfully be made to that person without compliance with any registration requirements.

None of the Private Placement Advisers, the Co-Private Placement Adviser or the Adviser accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares, the Offers or Admission and nothing in this Private Placement Memorandum will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Private Placement Advisers, the Co-Private Placement Adviser and the Adviser accordingly disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Private Placement Memorandum or any such statement.

Neither this Private Placement Memorandum nor any copy of it may be taken or transmitted into or distributed in Australia, Canada or Japan or to any resident thereof. Any failure to comply with this restriction may constitute a violation of the securities laws of Australia, Canada or Japan. The distribution of this Private Placement Memorandum in other jurisdictions may be restricted by law and the persons into whose possession this Private Placement Memorandum comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Potential investors are also required to note the following:

In making an investment decision, potential investors must rely on their own examination of the Company and the terms of the offering, including the merits and risks involved.

For persons in the United Kingdom only:

This Private Placement Memorandum is not a prospectus for the purposes of FSMA. Accordingly, the Shares may not be sold or offered in the UK by means of this Private Placement Memorandum except in circumstances which are exempt from the prospectus requirements of FSMA. In the UK, this Private Placement Memorandum and the investment activity to which it relates may only be communicated to, and is only directed at persons in the following categories, namely:

(i) persons having professional experience in matters relating to investments, being investment professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) ("**FPO**");

(ii) persons falling within Article 49(2)(a) to (d) of the FPO (including high net worth companies and unincorporated associations); and

(iii) persons to whom the communication may otherwise lawfully be made,

(all such persons being together referred to as "**relevant persons**").

This Private Placement Memorandum must not be acted on or relied upon by any persons who are not relevant persons. Any investment or investment activity to which this Private Placement Memorandum relates is available in the UK only to relevant persons and will be engaged in only with relevant persons and it will be a term of any subscription of Shares pursuant to the Offers that persons with a UK address warrant that they fall within one of the categories (i) to (iii) above. Persons in the UK who fall outside categories (i) to (ii) above must check that they fall within category (iii). Any person in the UK who does not fall within categories (i) to (iii) above may not rely on or act upon the matters communicated in this Private Placement Memorandum. Any person in the UK falling outside categories (i) to (iii) who has received any document forming part of this Private Placement Memorandum must return it immediately.

For persons in the European Economic Area only:

This Private Placement Memorandum is being distributed in member states of the European Economic Area only to (i) persons who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (as amended by Directive 2010/73/EU) ("**Qualified Investors**") and (ii) certain other persons to whom the distribution or availability of this Private Placement Memorandum is permitted by applicable law. This Private Placement Memorandum must not be acted or relied upon (i) in the United Kingdom, by persons who are not relevant persons and, except with the specific prior approval of the Company, Qualified Persons, and (ii) in any member state of the European Economic Area, other than the United Kingdom, by persons who are not Qualified Investors.

For residents of the United States only:

This Private Placement Memorandum is being distributed in the United States only to persons who are "accredited investors" as such term is defined in Rule 501(a) of Regulation D under the Securities Act.

THE SHARES BEING OFFERED HEREBY HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY OTHER U.S. OR NON-U.S. GOVERNMENTAL OR REGULATORY AUTHORITY, AND NEITHER THE SEC NOR ANY SUCH OTHER GOVERNMENTAL OR REGULATORY AUTHORITY HAS CONFIRMED OR PASSED UPON THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

The Shares offered hereby have not been and will not be registered under the Securities Act or the laws of any state of the United States. The Shares are being offered in the United States only to persons who are "accredited investors" as such term is defined in Rule 501(a) of Regulation D under the Securities Act pursuant to an exemption from registration under Section 5 of the Securities Act and outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). The Shares subscribed for in the Offers by purchasers in the United States will be "restricted securities" (as defined in Rule 144 under the Securities Act) and are subject to restrictions on transfer. See Part XIII: "Information on the Offers" of this Private Placement Memorandum.

The Company is a public limited company incorporated under the laws of England and Wales. In addition, some of the Directors and the Company's officers may reside outside the United States, and all or a substantial portion of their assets and the Company's assets may be located in jurisdictions outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Company and those Directors and officers, or to realise in the United States upon judgments of courts of the United States predicated upon civil liability provisions of the United States federal securities laws.

Metro Bank is not a member of the Federal Deposit Insurance Corporation (the "**FDIC**"). Accordingly, the deposits held by it are not insured by the FDIC.

The investment or investment activity to which this Private Placement Memorandum relates is available only to persons in the United Kingdom, the United States and the European Economic Area as described above. It is not intended that this Private Placement Memorandum be distributed or passed on, directly or indirectly, to any other class of person and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this Private Placement Memorandum. This Private Placement Memorandum and its contents are confidential and must not be distributed or passed on, directly or indirectly, to any other person. Any other person to whom this Private Placement Memorandum has been passed must return it immediately. This Private Placement Memorandum is being supplied to you solely for your information and may not be reproduced, further distributed or published, in whole or in part, by any other person.

Potential investors should read the risk factors set out in Part II: "Risk Factors" of this Private Placement Memorandum.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Historical financial information

Metro Bank's draft unaudited historical financial information in this Private Placement Memorandum has been prepared in accordance with IFRS issued by the International Accounting Standards Board and as adopted for use in the EU. The basis of preparation is further explained in Note 2 of Part VII: "Historical Financial Information". The draft unaudited historical financial information consists of the consolidated financial information of Metro Bank as of and for the years ended 31 December 2013, 2014 and 2015, save in the case of the year ended 31 December 2015, for the changes in consolidated statement of equity, the consolidated statement of cash flows and the notes in respect of the financial year then ended, which is not included in this Private Placement Memorandum (the "**Historical Financial Information**"). The Historical Financial Information has been prepared on a going concern basis.

Metro Bank expects to publish and make available to you on or about 16 February 2016 the final unaudited historical financial information of Metro Bank as of and for the three years ended 31 December 2015 in the Supplemental Private Placement Memorandum, and expects the accountant's report of PricewaterhouseCoopers LLP in respect thereof to be issued and included in the prospectus published in connection with Admission (the "**Prospectus**") on or about 24 February 2016.

Non-IFRS financial measures

Metro Bank presents certain key performance measures that are not defined under IFRS but that it finds useful in analysing its results and that it believes are widely used by investors to monitor the results of banks generally. These measures include Common Equity Tier 1 ratio, debt-to-value ratio ("**DTV Ratio**"), loan-to-deposit ratio ("**LTD Ratio**"), net interest margin ("**NIM**"), return-on-equity and total capital ratio.

Common Equity Tier 1 ratio is defined as share capital, share premium, retained earnings and other reserves less specified regulatory adjustments as a percentage of year-end risk-weighted assets. DTV Ratio is defined as the ratio of the gross outstanding amount of a loan to the indexed value of its collateral. LTD Ratio is defined as the ratio of loans and advances to customers divided by customer deposits. NIM is calculated as net interest income as a percentage of monthly average interest-earning assets. Return-on-equity is defined as profit attributable to ordinary shareholders divided by monthly average shareholder's equity as a percentage. Total capital ratio is defined as the total of Tier 1 and Tier 2 capital as a percentage of year-end risk-weighted assets.

Some of these measures are defined by, and calculated in compliance with, applicable banking regulation, which often provides Metro Bank with certain discretion in making its calculations.

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

Non-financial information operating data

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

Currency presentation

Unless otherwise indicated, all references in this Private Placement Memorandum to "sterling", "pounds sterling", "GBP", "£" or "pence" are to the lawful currency of the United Kingdom. Metro Bank prepares its financial statements in pounds sterling. All references to the "Euro", "euro", "EUR" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. All references to "dollars", "$" or "U.S.$" are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this Private Placement Memorandum has been expressed in pounds sterling.

Rounding

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

Market, economic and industry data

Certain information in this Private Placement Memorandum, in particular the information in Part III: "Industry Overview", has been sourced from third parties. Metro Bank confirms that all third-party information contained in this Private Placement Memorandum has been accurately reproduced and, so far as it is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Private Placement Memorandum, the source of such information has been identified.

Information regarding forward-looking statements

Certain information contained in this Private Placement Memorandum, including any information as to Metro Bank's strategy, market position, plans or future financial or operating performance and 2020 targets, constitutes "forward-looking statements". All statements, other than statements of historical fact, are forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intend", "continue", "budget", "project", "aim", "estimate", "may", "will", "could", "should", "schedule" and similar expressions identify forward-looking statements.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by Metro Bank, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to:

- general economic and business conditions in the UK and internationally;
- inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other central banks;
- fluctuations in exchange rates, stock markets and currencies;
- changing demographic developments, including consumer spending, saving and borrowing habits;
- changes in customer preferences;
- lack of historical operational data and growth management;
- adequacy of Metro Bank's internal risk management framework, systems and processes;
- the adequacy of loss reserves and access to liquidity;
- the ability to attract and retain senior management and other staff;

- changes to borrower or counterparty credit quality;
- dependence on IT systems and changing technological requirements;
- changes in laws, regulations, taxation, accounting standards or practices;
- adequacy of Metro Bank's insurance coverage;
- regulatory capital or liquidity requirements and similar contingencies outside Metro Bank's control;
- the policies and actions of governmental or regulatory authorities in the UK, the EU or elsewhere;
- exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and potential regulatory sanctions or adverse judicial judgments as a result thereof; and
- changes in tax legislation.

See Part II: "Risk Factors" for more information.

In addition, certain of Metro Bank's 2020 targets assume, *inter alia*, no interest rate increases and, due to the nature of the 2020 targets and the dependence of their achievement on numerous factors outside of Metro Bank's control, may not be achieved by 2020 or at all.

Investors are cautioned that forward-looking statements are not guarantees of future performance. Forward-looking statements may, and often do, differ materially from actual results. Any forward-looking statements in this Private Placement Memorandum speak only as of the date of this Private Placement Memorandum, reflect Metro Bank's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to Metro Bank's operations, results of operations, growth strategy, liquidity, capital and leverage ratios and the availability of new funding. Investors should specifically consider the factors identified in this Private Placement Memorandum that could cause actual results to differ before making an investment decision. All of the forward-looking statements made in this Private Placement Memorandum are qualified by these cautionary statements. Specific reference is made to Part II: "Risk Factors", Part IV: "Information on Metro Bank" and Part VIII: "Operating and Financial Review".

Subject to the requirements of applicable law, Metro Bank explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this Private Placement Memorandum that may occur due to any change in Metro Bank's expectations or to reflect events or circumstances after the date of it.

Definitions

Certain terms used in this Private Placement Memorandum, including all capitalised terms and certain technical and other terms, are defined and explained in Part XVIII: "Definitions".

No incorporation of website information

The contents of Metro Bank's website, any website mentioned in this Private Placement Memorandum or any website directly or indirectly linked to these websites have not been verified and do not form part of this Private Placement Memorandum, and investors should not rely on such information.

TABLE OF CONTENTS

PART I:
OFFER STATISTICS

Offer Price per Share	£24
Number of New Shares to be issued under the Offer	20,833,333
Number of New Shares to be issued under the Top-Up Offer	up to 4,166,666
Number of Shares in issue following completion of the Offers[1][2]	up to 85,290,502
New Shares as a percentage of the enlarged issued share capital[1][2]	approximately 29%
Minimum proceeds of the Offers	£400 million
Maximum proceeds of the Offers[2]	£600 million

Notes:

(1) Taking into account the conversion of 916,561 B Shares into Shares and the issue of c. 166,250 Shares in connection with the Project Revolution Awards.

(2) Assuming the issuance of the maximum number of New Shares in the Top-Up Offer.

PART I:
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Private Placement Memorandum	26 January 2016(1)
Opening Date of the Offer Period	27 January 2016
Publication of Supplemental Private Placement Memorandum	c. 16 February 2016
Latest time and date for receipt of completed Application Forms and payment of the Subscription Amount and Closing of the Offer Period	4.00 p.m. on 22 February 2016(2)
Confirmation of allocations to Shareholders	23 February 2016
Commencement of conditional trading(3)	24 February 2016
Closing Date, Admission and crediting of CREST accounts(3)	29 February 2016
Despatch of share certificates and refund of surplus subscription amounts	by 8 March 2016

Notes:

(1) Each of the dates in the timetable is subject to change. In particular, Metro Bank reserves the right to extend the Offer Period beyond 22 February 2016 to a date to be determined at the sole discretion of the Board. Metro Bank also reserves the right to extend the date for payment of the Subscription Amount into the Subscription Account beyond 22 February 2016.

(2) Prospective investors are required to submit their Application Form during the Offer Period and to make payment of their Subscription Amount into the Subscription Account in Pounds Sterling in cleared funds on or before 4.00 p.m. on 22 February 2016 (or such later date as the Board may in its sole discretion determine). From the closing of the Offer Period until Admission, if we provide to you supplementary disclosure, including by way of (i) identifying information that is in the Prospectus that was not included in this Private Placement Memorandum or any supplement thereto or (ii) a supplementary Prospectus, you will be allowed, for a period of time to be notified to you, to cancel your subscription for Shares in the Offers. In such event, the Closing Date and the date of Admission may change.

(3) Conditional trading in Shares on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 24 February 2016. Admission is expected to take place on or about 29 February 2016. Confirmation of the date for conditional trading and Admission and details of when and where the Prospectus in connection with the application for Admission can be obtained will be announced. **All dealings in the Shares prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.**

PART II:
RISK FACTORS

Any investment in the Shares is subject to a number of risks. Prior to investing in the Shares, prospective investors should consider carefully the factors and risks associated with any investment in the Shares, Metro Bank's business and the industry in which it operates, together with all other information contained in this Private Placement Memorandum, including, in particular, the risk factors described below. Prospective investors should note that the risks relating to Metro Bank, its industry and the Shares below are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares. However, the following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and should be used as guidance only. Additional risks and uncertainties relating to Metro Bank that are not currently known to Metro Bank, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on Metro Bank's business, prospects, results of operations and financial position and, if any of these risks should occur, the price of the Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in the light of the information in this Private Placement Memorandum and their personal circumstances.

Risks relating to the Macroeconomic Environment in which Metro Bank Operates

Metro Bank is subject to risks arising from the global macroeconomic environment

Metro Bank's business is subject to inherent risks arising from macroeconomic conditions in the UK, the Eurozone and globally, both generally and as they specifically affect financial institutions. As Metro Bank's revenue is derived almost entirely from customers based in the UK, Metro Bank is particularly exposed to the condition of the UK economy. During the global financial crisis that started in mid-2008, the UK economy experienced significant turbulence and periods of recession, adversely affecting, among other things, the state of the housing market, market interest rates, levels of unemployment, the cost and availability of credit and the liquidity of the financial markets. As Metro Bank opened its first store in 2010, it is not possible to assess the impact that the financial crisis would have had on its operations.

While economic indicators in the UK have improved considerably since the peak of the financial crisis, economic recovery remains sluggish and the outlook for the UK economy remains uncertain, with some forecasts predicting modest Gross Domestic Product ("**GDP**") growth and continued low interest rates over the near to medium term. If UK economic conditions weaken, or if financial markets exhibit uncertainty or volatility, including, as a result of a downgrade in the credit rating of the UK Government or the outlook of the UK banking sector, Metro Bank's ability to grow its business could be materially adversely impacted.

In addition, deterioration in the economic conditions in the Eurozone and globally, including instability in financial markets, may pose a risk to Metro Bank's business, despite the fact that Metro Bank has no direct financial exposure outside of the UK. Furthermore, in recent years, the UK financial markets have been at times negatively impacted by a number of global macroeconomic events, including ongoing concerns surrounding the large sovereign debts and fiscal deficits of several countries in Europe, a weakening of the Chinese economy, the potential exit of member states from the European Monetary Union and a decline in global commodity prices such as crude oil. The effects of these events have been felt in the UK economy and by UK financial institutions in particular, and it has placed strains on funding markets at times when many financial institutions had material funding needs. Furthermore, given the interdependence between financial institutions, Metro Bank is and will continue to be subject to the risk of deterioration, or perceived deterioration, of the commercial and financial soundness of other financial services institutions, both in the UK and beyond. Within the financial services industry, the default of any institution could lead to defaults, liquidity problems and losses by other institutions, including Metro Bank.

As a High Street bank, Metro Bank's business performance is influenced in particular by the economic condition of its customers. With respect to its retail customer base, weak economic conditions in the UK could lead to higher levels of unemployment, which have historically resulted in a decrease in new mortgage borrowing and reduced or deferred levels of spending, as well as an increase in arrears, impairment provisions and defaults. Worsening economic and market conditions may also lead to lower levels of business investment in the UK, which could result in reduced demand for Metro Bank's products from its commercial customers, as well as a reduction in their deposits with Metro Bank, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank faces risks associated with interest rate levels and volatility

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

In recent years, the UK has experienced historically low, sustained interest rates. Low interest rates reduce incentives for consumers to save and, therefore, could reduce Metro Bank's customer deposits, its principal source of funding.

Increases in interest rates could also adversely affect Metro Bank. As of 31 December 2015, 68% of Metro Bank's deposits from customers were variable rate and instant access, and in an increasing interest rate environment, Metro Bank may be more exposed to re-pricing of its liabilities than competitors with higher levels of term deposits. In the event of sudden large or frequent increases in interest rates, Metro Bank also may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short term, which, in turn, can negatively affect its NIM and revenue.

Changes in interest rates also impact Metro Bank's loan impairment levels and customer affordability. As of 31 December 2015, 45% of Metro Bank's loans and advances to customers were variable rate. As a result, a rise in interest rates, without sufficient improvement in customer earnings or employment levels, could, for example, lead to an increase in default rates among customers with variable rate loans who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for Metro Bank. A high interest rate environment also reduces demand for loan products generally, as individuals are less likely or less able to borrow when interest rates are high, thereby reducing Metro Bank's revenue. In addition, given that the majority of Metro Bank's loans and advances to customers are variable rate and repayable without penalty, there is a risk that a sudden rise in interest rates, or an expectation thereof, could encourage significant demand for fixed rate products. High levels of movement between products in a concentrated time period could put considerable strain on Metro Bank's business and operational capability, and Metro Bank may not be willing or able to price its fixed rate products as competitively as others in the market. This could lead to high levels of customer attrition and, consequently, a negative impact on Metro Bank's profitability.

In addition, changes in interest rates can affect Metro Bank's net interest income and margins. The Bank of England base rate has remained at 0.5% since March 2009, having fallen from 5.5% in December 2007. In the 30 years preceding December 2007, the lowest level of the base rate was 3.5%. This low interest rate environment has put pressure on NIMs throughout the UK banking industry. The sustained period of low interest rates has resulted in relatively low spreads being realised by Metro Bank between the rate it pays on customer deposits and the rate received on the loans and the structural hedges that Metro Bank enters into with respect to its equity and non-dated, interest rate insensitive liabilities, reducing Metro Bank's net interest income and NIM. Metro Bank's business and financial performance and net interest income and margin may continue to be adversely affected by the continued low interest rate environment.

The inability of Metro Bank to manage its exposure to interest rate volatility, whether through hedging, product pricing and maintenance of borrower credit quality or other means, could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank faces risks related to volatility in UK real estate

The value of Metro Bank's mortgage portfolio is influenced by UK house prices, and a significant portion of Metro Bank's revenue is derived from interest and fees paid on its mortgage portfolio. As of 31 December 2015, £2,156 million, or 61%, of Metro Bank's loans and advances to customers were mortgages. A decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce Metro Bank's capital and its ability to engage in lending and other income-generating activities. A significant increase in house prices over a short period of time could also have a negative impact on Metro Bank by reducing the affordability of homes for buyers, which could lead to a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting Metro Bank's ability to grow its mortgage portfolio.

In addition, Metro Bank's mortgage portfolio, like its customer base, is concentrated in London and surrounding areas. Metro Bank has benefited from the fact that in London, prime residential property has been regarded as a preferred outlet for international capital, and residential property price growth has been largely sustained in recent years, in part due to continued growth in the buy-to-let market. Residential property prices in the South East of England generally also have been more resilient to macroeconomic pressures compared to other regions of the UK. However, there can be no assurance that real estate price growth will continue in these areas. The buy-to-let market in the UK is predominantly dependent upon yields from rental income to support mortgage interest payments and capital gains from capital appreciation. Falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties. In addition, the UK Government's 2015 summer budget (the "**2015 Summer Budget**") introduced proposals to reduce the tax relief on mortgage interest expense available to buy-to-let landlords, which may result in lower yields on buy-to-let property investments, and the Bank of England has also stated that it is considering increasing the regulatory capital requirements of banks holding buy-to-let mortgages on their balance sheets, although no specific proposals have been made. The UK Government also announced in the 2015 autumn budget statement (the "**2015 Autumn Budget**") that stamp duty payable on second homes and certain buy-to-let homes would increase by 3% from April 2016. These factors could make the purchase of buy-to-let properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages.

The UK Government's intervention into the housing market, both directly through buyer assistance schemes and indirectly through the provision of liquidity to the banking sector under the Bank of England and HM Treasury's Funding for Lending scheme ("**FLS**"), may also contribute to volatility in house prices. This could occur; for example, as a result of the sudden end to buyer assistance schemes, which could lead to a decrease in house prices, or due to their continuation, which would maintain excess funding liquidity in the mortgage market which has supported a low mortgage interest rate environment, and which could lead to inflation in house prices. In addition, new rules promulgated by the FCA following the Mortgage Market Review ("**MMR"**) that came into force in April 2014 may also negatively affect mortgage supply and demand. The future impact of these initiatives on the UK housing market and other regulatory changes or UK Government programmes, such as the implementation of the European Union Mortgage Credit Directive by March 2016, is difficult to predict. Volatility in the UK housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

A UK exit from the European Union could impact Metro Bank's results

Following the UK general election in May 2015, the UK Government has committed to hold a referendum by the end of 2017 (but could as early as 2016) on whether the UK will remain in the EU, and Metro Bank faces risks associated with a vote to exit the EU. For example, because a significant proportion of the regulatory regime applicable to Metro Bank in the UK and anticipated regulatory reform is derived from EU directives and regulations, a vote in favour of the UK exiting the EU could materially change the legal framework applicable to Metro Bank's operations, including in relation to its regulatory capital requirements. In addition, a UK exit from the EU could result in restrictions on the movement of capital and the mobility of personnel. Any of these risks could result in higher operating costs and could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Risks relating to the Operation of Metro Bank's Business

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

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

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

- poor customer service;
- technology failures;
- breaching, or facing allegations of having breached, legal and regulatory requirements;
- committing, or facing allegations of having committed, or being associated with those who have or are accused of committing, unethical practices, including with regard to sales and trading practices;
- the failure of intermediaries and other third parties on whom Metro Bank relies, such as clearing banks, third-party mortgage servicing agents or partners, to provide necessary services; and
- poor business performance.

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

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

Metro Bank faces risks associated with the implementation of its business strategy

The implementation of Metro Bank's strategy is subject to a number of risks, including operational, financial, macroeconomic, market, pricing and technological challenges. See "Information on Metro Bank – Strategy". For example, Metro Bank's business plan involves the expansion of its store network, number of customers, deposit base and loan book. There can be no guarantee that Metro Bank will be able to achieve these goals within the timescale envisaged. In relation to the expansion of its store network, which Metro Bank targets reaching approximately 110 stores by the end of 2020, there is a risk that new stores will not be as profitable as the more established stores. The success of Metro Bank's business model also requires obtaining significant numbers of new customer accounts, either through new customer acquisition or existing customers opening new accounts. Implementing Metro Bank's strategy will also require management to make complex judgements, including anticipating customer trends and needs across a range of financial products, identifying suitable borrowers for the expansion of its loan book, and structuring and pricing its products competitively. In addition, growth may negatively impact the continuity of Metro Bank's corporate culture and its ability to train staff to reflect its values. There also can be no guarantee that Metro Bank's technological infrastructure will be adequate to support its planned growth, or that Metro Bank will be able to successfully augment its systems if required in a timely manner, or at all.

Furthermore, Metro Bank's strategy is based on, among other things, certain financial expectations, including its ability to raise new capital and/or debt, which in turn, could be impeded by macroeconomic factors, including a downturn in the UK, European or global economies, increased competition in the retail banking sector and/or significant or unexpected changes in the regulation of the financial services sector in the UK or Europe. In addition, Metro Bank's current lack of a credit rating may further impede its ability to raise capital and/or debt in the future.

Moreover, in recent years, there has been an increased focus by UK regulators on the appropriateness and sustainability of the business models and growth strategies of regulated firms such as Metro Bank. Regulators no longer focus exclusively on the financial strength of regulated firms but also consider non-financial resources, including governance and infrastructure, available to the firm in assessing the sustainability of the business model and whether it continues to meet regulatory requirements. In addition, certain regulators have the power to restrict regulated firms' ability to develop products or make material acquisitions. If Metro Bank's regulators believe that it does not have a sustainable business model or does not meet any of the regulatory conditions, they could remove or restrict Metro Bank's operating licences and/or the way in which it conducts its business.

The inability of Metro Bank to implement its business strategy for any of these reasons could have a material adverse effect on its business, financial condition and results of operations.

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

The availability of retail and commercial deposits, Metro Bank's primary source of funding, may be impacted by increased competition from other deposit-takers or factors that constrain the volume of liquidity in the market. In addition, Metro Bank's access to FLS funding may be restricted if it fails to comply with the FLS' terms and conditions, as set out by the Bank of England. Metro Bank's ability to access retail and commercial funding sources on satisfactory economic terms is also subject to a variety of factors, a number of which are outside its control, including interest rates, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system. In addition, because Metro Bank operates a "savings promise" that customers will have access to Metro Bank's "best rate available" for each personal savings account, and that new customers will not receive a more favourable rate than existing customers, the cost of Metro Bank's deposit funding may be higher than that of its competitors. A loss in customer confidence in Metro Bank could also significantly increase deposit withdrawals.

While Metro Bank does not intend to rely on wholesale funding, if access to retail and commercial deposit funding were constrained, Metro Bank may need to make use of the wholesale funding markets. If the wholesale funding markets were to be fully or partially closed, it is likely that funding would prove more difficult to obtain on commercially attractive terms. In addition, Metro Bank does not currently hold a credit rating, which, particularly in a period where liquidity may be scarce, could exacerbate its difficulty in obtaining funding from the wholesale or capital markets at attractive prices.

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

Metro Bank faces risks from competition

The market for financial services in the UK is competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which Metro Bank operates are mature, and growth by any bank typically requires obtaining market share from competitors.

Metro Bank faces competition from established providers of financial services, including banks and building societies, some of which have substantially greater scale and financial resources, broader product offerings and more extensive distribution networks than Metro Bank. In addition, while Metro Bank utilises the "standardised" approach for assessing credit risk, which tends to overestimate credit risk of lending portfolios, leading to higher risk-weighted assets, certain competitors may utilise the internal ratings-based approach, which allows them to hold less capital against their lending than the standardised approach, thus freeing up additional capital that could be used to lend to customers. Established banks may also be subject to less stringent capital adequacy requirements than Metro Bank.

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

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

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

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

Metro Bank is exposed to risks relating to relationships with intermediaries

Metro Bank relies on its network of intermediaries, having derived approximately 84% of its mortgage portfolio and 61% and 75%, respectively, of its invoice and asset finance portfolios from intermediaries in 2015, with the top 10 brokers accounting for approximately 80% of all intermediary-originated loans in the same year. Metro Bank has limited oversight of intermediaries' interactions with prospective customers, and if intermediaries violate applicable regulations or standards when selling Metro Bank's products, Metro Bank's reputation could be harmed. In addition, Metro Bank may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries. Furthermore, Metro Bank could lose the services of intermediaries with whom it does business; for example, as a result of market conditions causing their closure or intermediaries switching to Metro Bank's competitors due to higher commissions or other incentives. The loss or deterioration of Metro Bank's relationships with its intermediaries could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

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

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

Furthermore, there is a risk that, despite Metro Bank's belief that it conducts an accurate assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macroeconomic disruptions or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in Metro Bank's lending portfolio. Because Metro Bank was established in 2010, its loans and advances to customers are relatively unseasoned, and it has limited experience in testing and tracking its impairment and loan loss provisioning strategies. Deterioration in customer credit quality and a resulting increase in impairments could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

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

Substantially all of Metro Bank's business relates to customers in the UK, and more specifically, predominantly those in London and the South East of England. If a disruption to the credit markets or an adverse change in economic or political conditions were to have a disproportionate effect on London and the South East of England, Metro Bank could be exposed to greater potential losses than some of its competitors, which could have an adverse effect on its business, financial condition and results of operations.

Metro Bank's risk management policies may not be effective

Metro Bank faces a wide range of risks in its core business activities, including credit risk and liquidity risk, conduct risk and interest rate risk. See Part X: "Risk Management". Effective risk management requires, among other things, robust policies, processes and controls for the accurate identification and control of a large number of transactions and events, and Metro Bank's risk management policies, processes and controls may not prove to be adequate. Metro Bank has a range of tools designed to identify, assess and manage the various risks which it faces, some of which are based on historical market behaviour. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods Metro Bank utilises for risk management are based on the evaluation of markets, customers or other information that is publicly known or otherwise available to Metro Bank. This information may not always be correct, updated or correctly evaluated. It is difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on Metro Bank's financial performance and business operations, particularly in periods of unusual or extreme market conditions. If Metro Bank's risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on its business, financial condition and results of operations

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

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

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

In addition, Metro Bank outsources significant elements of its IT and network functions and some of its middle and back office processes, such as telephony infrastructure and data centre infrastructure, to third parties. Metro Bank also relies on certain third-party vendors, such as Temenos Group AG ("**Temenos**") for its core banking engine software, Pepper Group Limited ("**Pepper**") for its mortgage servicing software, Microsoft for a variety of operational software and a series of third parties to support the infrastructure for its debit and credit cards. In addition, Metro Bank relies on Barclays PLC as its clearing bank. If these third parties were unable to deliver their services to Metro Bank in a timely manner and in accordance with Metro Bank's specifications, Metro Bank's ability to meet its customer service levels could be compromised.

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

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

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

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

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

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

As a financial institution, Metro Bank is subject to a heightened risk that it will be the target of criminal activity, including fraud, theft or cybercrime. For example, Metro Bank is exposed to potential losses due to breaches of its terms of business by its customers (e.g., through the use of a false identity to open an account) or by customers engaging in fraudulent activities, including the improper use of legitimate customer accounts. In addition, losses arising from staff misconduct may result from, among other things, failure to document transactions properly or obtain proper internal authorisation in an attempt to defraud Metro Bank, or from physical theft at Metro Bank's stores. There also can be no assurance that Metro Bank's systems will not be subject to attack by cybercriminals, including through denial of service attacks, which could significantly disrupt Metro Bank's operations. Any of these activities may be difficult to prevent or detect, and Metro Bank's internal policies to mitigate these risks may be inadequate or ineffective. Metro Bank may not be able to recover the losses caused by these activities or events, and it could suffer reputational harm as a result of them, either of which could have a material adverse effect on its business, financial condition and results of operations.

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

Metro Bank faces risks related to its hedging operations. Metro Bank engages in hedging activities; for example, to limit the potential adverse effect of interest rate fluctuations on its results of operations. However, Metro Bank does not hedge all of its risk exposure and cannot guarantee that its hedging strategies will be successful due to factors such as behavioural risk, unforeseen volatility in interest rates or decreasing credit quality of hedge counterparties in times of market dislocation. If its hedging strategies are not effective, Metro Bank may be required to record negative fair value adjustments. Losses from the fair value of financial assets could also have a material adverse effect on Metro Bank's capital ratios.

Through its treasury operations, Metro Bank holds liquid asset portfolios for its own account, exposing Metro Bank to interest rate risk, basis risk and credit spread risk. Under volatile market conditions, the fair value of Metro Bank's liquid asset portfolios could fall more than estimated and cause Metro Bank to record mark-to-market losses. In addition, as of 31 December 2015, Metro Bank had investment securities of £2,000 million, principally comprising conservative, low-interest paying instruments, such as AAA, AA and A-rated residential mortgage-backed securities, gilts, UK treasury bills, covered bonds and bonds issued by corporates and financial institutions. Metro Bank uses investment securities as a source of liquidity and an outlet to deploy customer deposits which have not been lent to customers. Metro Bank has also pledged £524 million in investment securities as collateral to the Bank of England for the £465 million it had drawn down from FLS as of 31 December 2015. Despite the conservative nature of its investment securities portfolio, there can be no guarantee that the value of Metro Bank's investment securities portfolio will not decrease. In a distressed economic or market environment, the fair value of certain of Metro Bank's holdings and exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then prevailing market conditions, may result in significant negative changes in the fair value of Metro Bank's exposures and holdings.

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

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

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

Metro Bank's success depends on the continued service and performance of its key colleagues, particularly its senior management, and its ability to attract, retain and develop high-calibre talent. Metro Bank may not succeed in attracting and retaining key personnel if they do not identify or engage with Metro Bank's brand and values. In addition, as a relatively new market entrant, Metro Bank may not have sufficient scale to offer staff rates of compensation or opportunities to advance within the organisation comparable to its larger competitors, particularly at more senior levels. In addition, external factors such as macroeconomic conditions, the developing and increasingly rigorous regulatory environment, changes to work permit and visa rules, or negative media attention on the financial services industry may adversely impact attracting and retaining staff.

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

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

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

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

Metro Bank's business strategy depends on securing leases, which are typically long term, or purchasing premises in prime locations for its store network. However, competition for these types of properties is likely to be significant, and Metro Bank cannot be certain it will be able to secure its premises of choice or necessary planning approvals. Any future inability to obtain additional suitable leases or purchases for its properties could have a material adverse effect on the success of Metro Bank's growth strategy and its business, financial condition and results of operations.

Claims and litigation could impact upon Metro Bank's reputation and earnings

Metro Bank is subject to legal and regulatory proceedings in the course of its business. Risks relating to these proceedings may arise for a number of reasons, including (i) Metro Bank's business may not be, or may not have been, conducted in accordance with applicable laws or regulations, (ii) contractual obligations may either not be enforceable as intended or may be enforced in a way that is adverse to Metro Bank or (iii) liability for damages may be incurred to third parties harmed by the conduct of Metro Bank's business. There can be no assurance that Metro Bank will prevail in any future litigation or regulatory proceedings. Any litigation or other proceedings, whether or not determined in Metro Bank's favour or settled by Metro Bank, could be costly and may divert the efforts and attention of Metro Bank's management and other personnel from normal business operations. In addition, any proceedings could adversely affect Metro Bank's reputation and the market's perception of Metro Bank and the products and services that it offers, as well as customer demand for those products and services, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

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

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

Metro Bank is subject to changes in taxation laws

Metro Bank's activities are conducted in the UK, and consequently, it is subject to a range of UK taxes. Revisions to tax legislation or to its interpretation could result in increased tax rates (including in relation to UK Corporation Tax rates) or additional taxes. For example, in November 2015, the UK Parliament passed a bank surcharge of 8% which will apply from 1 January 2016. In addition, Metro Bank is subject to periodic tax audits, which could result in additional tax assessments relating to past periods.

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

Regulatory Risks

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

Metro Bank, in common with other financial services firms, has in recent years faced increased levels of scrutiny from regulators in respect of the conduct of its business. Following the financial crisis, this scrutiny has been supplemented by additional powers intended to protect consumers and ensure redress. Metro Bank's principal regulators are the PRA (which is responsible for prudential regulation) and the FCA (which is responsible for conduct regulation). The PRA and FCA can apply a wide range of sanctions to firms (and individuals working for firms) found to be operating in breach of their regulations, or in a manner deemed to pose a significant risk to their statutory obligations, including public or private censure, fines, regulatory proceedings and, in extreme cases, suspension or withdrawal of authorisation to operate particular parts of their business or prosecution.

The FCA, Metro Bank's conduct regulator, has highlighted strengthening consumer protection as a key priority in its Business Plan for 2015 and 2016. In addition, the FCA is currently undertaking a series of thematic reviews, including in relation to the cash savings market, credit card market, early arrears management in unsecured lending and a "Responsible Lending Review". Metro Bank was requested to provide and has provided information disclosure in relation to the FCA's review of the cash savings and credit card markets. The FCA also announced in October 2015 a "Call for Inputs" on barriers to competition in the UK mortgage sector, with a view to launching a market study in the first quarter of 2016. Any recommendations that the FCA may make in relation to these or any of its other thematic reviews could impact Metro Bank's business, although given the early stages of the reviews, Metro Bank is unable to assess their potential impact, if any, on its business.

Since April 2014, the FCA has also been charged with oversight of regulated consumer credit activities, providing it with broad regulatory authority over a wide range of aspects of Metro Bank's lending business, such as the format and content of its customer communications and its terms of business. The FCA is empowered to require firms to operate a consumer redress scheme, under which the firm is required to make redress to customers where it has failed to carry on its activities in accordance with its legal or regulatory obligations. The FCA also has temporary product intervention powers, which enable it to restrict certain products, product features or their promotion for up to 12 months without consultation. Certain consumer bodies have the power to refer so-called "super-complaints" to the FCA for further investigation as well. Most banking customers are also entitled to refer complaints to the Financial Ombudsman Service (the "**FOS**"), and recent years have seen an increase both in the number of cases referred to the FOS and general public awareness regarding the ability to challenge firms.

Investigating and dealing with proceedings, making redress and the cost of any regulatory sanctions may involve significant expense. The use of product intervention powers by the FCA may restrict Metro Bank's operations and its ability to offer new products to its customers. In any case, adverse publicity relating to regulator action could undermine customer confidence in Metro Bank and reduce demand for its products and services, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank will be subject to new legislation on mortgages

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

Metro Bank is subject to prudential regulatory capital and liquidity requirements

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

The prudential regulatory capital and liquidity requirements to which Metro Bank is subject are primarily set out in the Capital Requirements Directive IV 2013/36/EU (as implemented in the UK through applicable regulatory rules which, in relation to, Metro Bank will be set out in the PRA Rulebook and other PRA publications) and the Capital Requirements Regulation ("**CRR**" and together "**CRD IV**"). In addition Metro Bank is subject to additional requirements imposed by the PRA to the extent not inconsistent with CRD IV (see Part VI: "Supervision and Regulation" for more details of the prudential regime applicable to Metro Bank).

Although many of the measures in CRD IV took effect in the UK from 1 January 2014, some of the measures are to be phased in over a transitional period ending on 31 December 2018, though such phased implementation is in some cases subject to the PRA's right (which it has largely exercised) to apply an expedited timeframe. In particular, the liquidity regime is being phased in, though a significant part of it, the Net Stable Funding Ratio which is not expected to apply until 2018, is subject to further review and more detailed development.

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

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

Due to its growth, Metro Bank's capital requirements are subject to increase. If Metro Bank fails to meet its minimum regulatory capital or liquidity requirements, it may be subject to administrative actions or sanctions. In addition, a shortage of capital or liquidity could affect Metro Bank's ability to pay liabilities as they fall due, pay future dividends and distributions, and could affect the implementation of its business strategy, impacting future growth potential. If, in response to any capital shortage, Metro Bank raises additional capital through the issuance of share capital or capital instruments, existing shareholders may experience a dilution of their holdings or reduced profitability and returns. Any inability of Metro Bank to maintain its regulatory capital or liquidity requirements, or any legislative changes that limit Metro Bank's ability to manage its capital effectively may have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to rules relating to regulatory action in the event of a bank failure

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

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

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

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

Institutions subject to BRRD will also be required to meet a minimum requirement for own funds and eligible liabilities ("**MREL**") capable of being bailed-in. The MREL requirement will be equal to a percentage of total liabilities and own funds to be set by the Bank of England. The EBA has issued final draft standards on the specific criteria that will apply to the calculation and requirements of MREL, but these have yet to be adopted by the European Commission. The implementation of the MREL requirements may require Metro Bank to raise additional capital or adjust its current capital levels, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Finally, the BRRD requires that certain claims of certain depositors and the Financial Services Compensation Scheme (the "**FSCS**") (to the extent it covers claims of depositors in a bank insolvency) are given preferential status in the bank insolvency. Where Metro Bank has large numbers of depositors entitled to Financial Services Compensation Scheme protection, this means those depositors and the FSCS will get preferential treatment ahead of other unsecured creditors generally, but this will not affect amounts distributable to shareholders which rank last on any insolvency in any event.

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

Metro Bank is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit Metro Bank, its staff or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules creates a significant financial and operational burden for banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more aggressive, resulting in several landmark fines against UK financial institutions. The FCA, in particular, has made financial crime a key topic to be addressed under its 2015/16 Business Plan. Furthermore, following the entry into force of the EU AML Directive and Transfers of Funds Regulation on 25 June 2015, new regulations will come into force before the deadline for national implementation of 26 June 2017, which will affect the scope of the regulatory requirements Metro Bank must comply with. While Metro Bank monitors its regulatory environment, it is not always possible to predict the nature, scope or effect of future regulatory requirements to which it might be subject, and in particular, the manner in which existing laws might be administered, interpreted or enforced. Although Metro Bank believes that its current policies, processes and procedures are adequate and effective, and therefore, comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that these policies eliminate the risk of money laundering, sanctions breaches or bribery, including actions by Metro Bank's staff, for which Metro Bank might be held responsible. Any of these events may have severe consequences, including criminal sanctions, fines, restrictions on its business operations and reputational damage, which could have a material adverse effect on Metro Bank's business, financial condition and results of operations.

Metro Bank is subject to recently implemented rules on deposit guarantee schemes

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

It is possible, as a result of the new directive and subsequent UK implementation, that future Financial Services Compensation Scheme ("**FSCS**") levies on Metro Bank may differ from those at present, and such reforms could result in Metro Bank incurring additional costs and liabilities. In particular, Metro Bank may have to update its IT systems to comply with the PRA's proposals for new system requirements, including requirements on firms to have systems that will allow accounts that do not contain eligible deposits to be frozen at the point of resolution while leaving marked deposits accessible and will be able to separate FSCS-covered and uncovered balances. This may have a material adverse effect on Metro Bank's business, financial condition and results of operations.

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

In July 2013, the European Commission proposed a revised payment services directive ("**PSD II**") to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty.

There is uncertainty, particularly in relation to PSD II, as to how the directive will be interpreted and implemented nationally. PSD II may impose additional requirements on Metro Bank in relation to its dealings with counterparties who fall within the scope of PSD II, such as third-party service providers. The scoped payments and service providers caught by PSD II are likely to expand, meaning an additional compliance burden for Metro Bank, although at this stage, the exact ramifications remain unclear.

The powers of the new Payment Systems Regulator have recently come into force, following its creation by HM Treasury. Its numerous objectives include the promotion of effective competition in the markets for payment systems and services - between operators, payment service providers and infrastructure providers. There is therefore uncertainty as to the impact the Payment Systems Regulator will have on banks and interbank systems, which could impact on Metro Bank's future operations.

If the Company is a "passive foreign investment company" for U.S. federal income tax purposes, U.S. Holders of Shares could be subject to materially adverse U.S. federal income tax consequences

If the Company were a "passive foreign investment company" (a "**PFIC**") for any taxable year during which a U.S. Holder (as defined in Part XII: "Taxation—Certain U.S. Federal Income Tax Considerations") holds Shares, certain adverse U.S. federal income tax consequences may apply to the U.S. Holder. The Company does not believe that it will be a PFIC for its current taxable year and does not expect to be a PFIC for U.S. federal income tax purposes in the foreseeable future. However, PFIC status depends on the composition of a company's income and assets and the fair market value of its assets from time to time, as well as on the application of complex statutory and regulatory rules that are subject to potentially varying or changing interpretations. Accordingly, there can be no assurance that the Company will not be considered a PFIC for any taxable year.

If the Company were a PFIC, U.S. Holders of Shares may be subject to adverse U.S. federal income tax consequences, such as taxation at the highest marginal ordinary income tax rates on capital gains and on certain actual or deemed dividends, interest charges on certain taxes treated as deferred, and additional reporting requirements. If the Company were a PFIC and the Shares were "regularly traded" on a "qualified exchange" for U.S. federal income tax purposes, U.S. Holders would be able to make "mark-to-market elections" with respect to their Shares to mitigate some of the adverse consequences of holding stock of a PFIC; however, such elections would not mitigate the adverse implications of PFIC treatment with respect to any interest in a corporation treated as a PFIC held by the Company. See Part XII: "Taxation—Certain U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations".

Risks relating to the Shares

There has been no prior trading market for the Shares

Prior to Admission, there was no public trading market for the Shares. Following Admission, Metro Bank can give no assurance that an active trading market for the Shares will develop or, if developed, can be sustained. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be materially adversely affected.

The value of the Shares may fluctuate significantly

Following Admission, the value of the Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this Part II: "Risk Factors", as well as period-to-period variations in operating results or change in revenue or profit estimates by Metro Bank, industry participants or financial analysts. The value of the Shares could also be affected by developments unrelated to Metro Bank's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to Metro Bank, speculation about Metro Bank in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in any number of countries, whether or not Metro Bank derives significant revenue therefrom.

The market price of the Shares could also be negatively affected by sales of substantial amounts of Shares in the public markets, or the perception that these sales could occur.

Metro Bank may not pay dividends, and future issuances of additional shares in Metro Bank could dilute existing shareholders

As a matter of applicable company law, Metro Bank may only pay dividends if and to the extent that, among other requirements, it has distributable reserves and sufficient cash available for this purpose. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and with the approval of regulators and will depend on, among other things, Metro Bank's financial position, general economic conditions and other factors the Directors deem significant from time to time. As a result, there can be no assurance that Metro Bank will pay dividends in the future.

The issue of additional shares in Metro Bank in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.

Metro Bank may seek to raise financing to fund future acquisitions and other growth opportunities. Metro Bank may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, Metro Bank's existing shareholders would suffer dilution in their percentage ownership if these issues were not done on a pre-emptive basis.

Shareholders outside the United Kingdom may not be able to participate in future equity offerings

The Articles of Metro Bank provide for pre-emptive rights to be granted to shareholders in Metro Bank, unless these rights are disapplied by a shareholder resolution. However, securities laws of certain jurisdictions may restrict Metro Bank's ability to allow participation by shareholders in future offerings. In particular, shareholders in the United States may not be entitled to exercise these rights unless either the rights and Shares are registered under the Securities Act, or the rights and Shares are offered pursuant to an exemption form, or transaction not subject to, the registration requirements of the Securities Act.

PART III:
INDUSTRY OVERVIEW

The following information relating to the banking industry in the United Kingdom has been provided for background purposes only. The information has been extracted from a variety of sources released by public and private organisations. The information has been accurately reproduced and, as far as Metro Bank is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

1 Economic Overview

1.1 UK Economic Overview

The economic environment in the UK has continued to improve following the global financial crisis in 2008 with real GDP growing by a compound annual growth rate ("**CAGR**") of 1.8% between 2009 and 2014. UK GDP, which has been increasing at a greater rate than that of its European peers, and is forecast by the UK Office of Budget Responsibility to grow by 2.4% in both 2015 and 2016. Other UK macro-economic indicators have also shown improvement, as summarised in the table below.

	2011	**2012**	**2013**	**2014**	**2015E**	**2016E**	**2017E**
				(% unless otherwise indicated)			
Metric							
GDP	1.6	0.7	1.7	2.9	2.4	2.4	2.5
Unemployment	8.3	7.8	7.2	6.2	5.5	5.2	5.2
Consumer Price Index	4.6	2.7	2.1	1.5	0.1	1.0	1.8
Bank of England base rate	0.5	0.5	0.5	0.5	0.5	0.7	1.0
Halifax House Price Index (% change)[1]	(1.3)	(0.3)	7.5	7.8	5.7	4.4	4.8

Source: OBR, ONS, World Bank

Note:

[1] Forecast data from Office of Budget Responsibility, November 2015

The unemployment rate decreased from 8.3% in 2011 to 6.2% in 2014 and is forecast to decrease further to 5.5% in 2015, while the total number of people in employment has increased from 30.7 million to 31.1 million over the same period. The Consumer Price Index has remained within the Bank of England's target of 2% +/- one percentage point since 2012 with the exception of 2015 and is forecast to return to the targeted range from 2016. The Bank of England base rate has been maintained at 0.5% since 2009, contributing to a revival in the housing market with a 7.8% increase in the Halifax House Price Index in 2014. The favourable macroeconomic outlook has also contributed to increasing confidence in the SME sector (Source: FSB Small Business index Q2 2015), while unsecured lending is expected to surpass pre-crisis levels in 2016 (Source: PricewaterhouseCoopers Precious Plastics Report 2015).

1.2 Regional Economic Overview

The UK Government reports on economic data from twelve regions, including Metro Bank's core regions, London and the South East. The data reveals diverse demographics and divergent economic performances.

The demographics of the population differ between London and the rest of the UK. While the average age of the UK population is 40, London's population is notably younger, averaging 34 years of age. Average earnings also differ significantly between regions, with average earnings in Metro Bank's core regions being higher than the UK average. London is an outlier with average earnings of £39,600, compared to the UK average of £29,600, partly reflecting the higher cost of living. Further, average property prices in London increased by a CAGR of 6.6% between 2009 and 2014, resulting in average house prices reaching £500,000. London and the South East are forecast to be the two fastest growing regions in the UK with London accounting for almost a third of all UK forecast growth in the next five years (Source: Centre for Economics and Business Research).

1.3 SME Economic Overview

SMEs (using the Bank of England's definition as businesses with an annual turnover of up to £25 million) represent a large part of the UK economy, including 60% of all employees and 47% of the turnover of all private sector businesses (Source: Department for Business Innovation & Skills, Business Population Estimates 2014).

A European Commission study in 2015 found the UK to be among the most competitive environments for SMEs in the European Union, with a positive outlook for future growth. The UK scored particularly highly in business environment, skills and innovation and conditions for international business (Source: European Commission for Enterprise and Industry). Recently, the UK Government has introduced a range of measures to stimulate SME success. These include advice to boost exports, changes in public sector procurement to include more SMEs, improved broadband access and business rate relief (Source: Lord Young Report on Small Firms 2010 – 2015, February 2015).

Since 2004, the number of SMEs has increased from 3.9 million to 5.4 million, despite declining levels of lending from banks following the financial crisis (Source: UK Department for Business, Innovation and Skills – Business Population Estimates: 2014 statistical release). There are positive indications of further growth as 14% of SMEs plan to increase staff and 43% expect revenue growth in the next three months (Source: FSB Voice of Small Business Survey 2014).

2 UK Consumer Trends

In recent years, a number of disruptors have revolutionised the way customers are served across a number of industries. Uber has changed the way people can hail taxis and track its progress, WhatsApp has partially displaced telecom companies and Netflix has transformed the provision of home entertainment, while Amazon (retail) and Apple (technology) continue to disrupt other industries through their ongoing innovation and exceptional customer service.

Some common themes that run across the retail sectors, including banking, that are facing these disruptors include:

(a) the importance of tangible delivery at point-of-sale;

(b) reduced barriers to entry as a result of increasing digitisation and development of off-the-shelf modular IT platforms;

(c) cloud computing reducing the cost of doing business;

(d) the rise of eCommerce driving a need for online/multi-channel interaction;

(e) technology-led services such as PayPal and e-wallets changing the way consumers transfer money and pay for goods and services;

(f) increasing importance of brand identity as price transparency rises (e.g., the increasing use of price comparison websites); and

(g) analysing social media data and trends to make it possible for firms to draw major insights into customers' lives, including their potential credit worthiness.

As a result of these trends, incumbent banks are facing increased competition from a range of sources, including peer-to-peer lenders, crowd-funding, specialist payment firms, non-bank lenders, as well as specialty lenders and other new entrants. For instance, Metro Bank, Britain's first new High Street bank in over 100 years, offers (i) a differentiated approach to customer service in banking through its tangible delivery through multiple channels (store, telephony, mobile and online) so that the customer can engage with Metro Bank in the way that best suits that customer, (ii) a full-service product offering across retail and SME customers and (iii) innovation (such as, the Directors believe, being the first bank globally to provide chip and pin and contactless cards at the point-of-sale and being awarded the Microsoft Technology Innovation Award in 2014 as well as the Financial Services Award at Microsoft's Visionary Awards for Outstanding Business Achievement in December 2015), disrupting the traditional banking model.

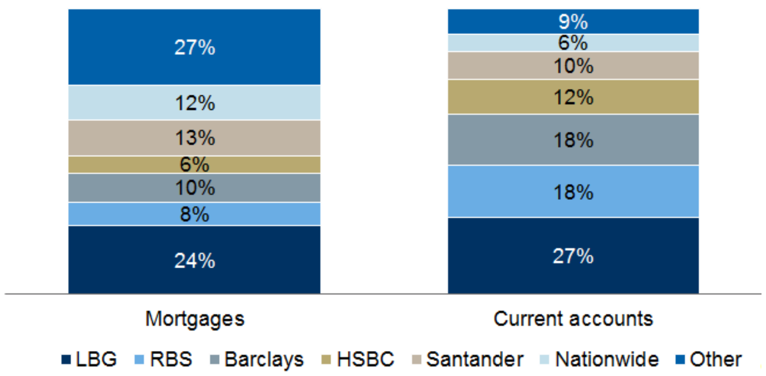
3 Overview of the UK Banking Industry

3.1 Introduction

The UK banking industry forms an important part of the UK economy and provides a range of services, including helping to facilitate day-to-day financial transactions and providing capital to both individuals and businesses for various purposes. The total UK banking market comprised of £2.2 trillion of gross lending assets in November 2015 (Source: Bank of England Datastream Series LPMB8Y9, LPMB9Y2 and LPMB9Y3) and £2.1 trillion in deposits (Source: Bank of England, Datastream Series LPMVRJX and LPMVRJV). The financial services industry is particularly concentrated in London and accounted for 19% of London's total gross value added (Source: Office of National Statistics, December 2014) compared to 8.2% for the UK as a whole.

UK bank lending is funded by customer deposits and the wholesale markets, with retail markets providing the majority of UK banks' funding. Following the financial crisis in 2008, there was an increase in the level of concentration as the larger banks acquired smaller players; for example, the acquisition of HBOS by Lloyds TSB in 2009. According to a Treasury Select Committee report from 2011, the top five UK banks controlled 75% of total gross new lending in mortgages, 85% of the personal current account market and 62% of the savings account market (Source: Treasury Committee report: Competition and choice in retail banking). This concentration has persisted, despite the entry of new players in the market, as illustrated by the chart below.

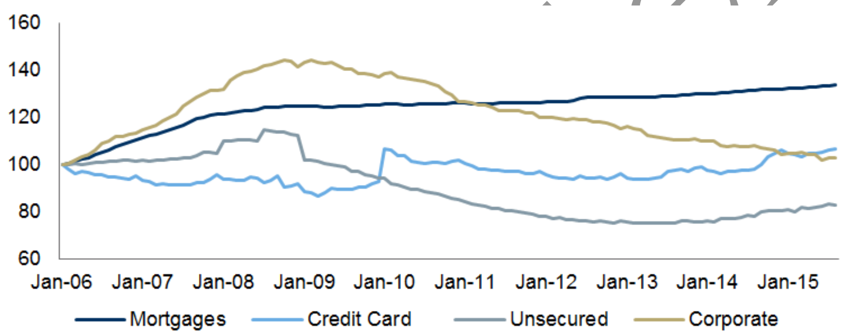
UK Banking Market Shares



Source: CML, Datamonitor, Annual Reports
Note: Market shares as of 31 December 2014

Due to the losses sustained in the financial crisis as well as increased capital and liquidity requirements under the new Basel III and CRD IV regulatory regime, the larger UK banks have been forced to deleverage, rebuild capital and reduce their reliance on wholesale funding. UK banks deleveraged by £1.7 trillion in the five years to 2013 (Source: KPMG Reinvention of UK Banking Report 2013), resulting in a significant reduction in the availability of credit to the UK economy (see chart below).

Historical Evolution of UK Lending Stock by Product (Indexed to January 2006)



Source: Bank of England, Datastream Series LPMVTXH; LPMVZRE (Credit Card); LPMB4TT (Unsecured); LPMVWMQ (Corporate)

As well as deleveraging, a number of incumbent banks have been through major cost-cutting exercises, have scaled back their branch network and are continuing to spend significant amounts on improving their IT and operational capability. Additionally, several incumbent banks, such as LBG and RBS, continue to streamline their businesses and refocus their operations both geographically and by product.

Many of the larger UK banks have faced a number of alleged legacy and conduct issues arising from, inter alia, payment protection insurance ("**PPI**") and swap mis-selling, LIBOR scandals as well as prolonged underinvestment in their infrastructure. Total litigation, fines and customer redress have totalled approximately £30 billion since 2011. Together with widespread customer dissatisfaction with the incumbent banks, this has presented an opportunity for new entrants such as Metro Bank. While the larger banks have sought to move away from bespoke underwriting and a relationship-based model towards a more commoditised product offering, the newer entrants have stepped in. A number of these new participants successfully listed their shares in the last 18 months (for example, Aldermore, OneSavings Bank, Shawbrook and Virgin Money) and continue to achieve strong growth and returns.

3.2 Market Participants

The main participants in the UK banking market can be grouped into a number of broad categories:

Large banks**:** These are long-established providers, which typically have national coverage and provide a fulsome range of banking products and services, including consumer and corporate lending, investment banking, current accounts, credit cards, mortgages and other personal banking services. Most have significant overseas operations with new business obtained via a variety of channels. There are five large national banks in the UK banking sector: Barclays, HSBC, LBG, RBS and Santander (Source: Bank of England: Evolution of the UK banking system).

Medium-sized banks: These are branch-led banks with an established customer base that compete with the larger banks in the mainstream retail and commercial markets. These include banks such as Virgin Money, Clydesdale and TSB (recently acquired by Banco Sabadell). The planned carve-out of Williams & Glyn from RBS would add another medium-sized bank.

Full-service banks: These are banks that operate across the retail and SME sectors and have a full-service product offering. They typically have a strong emphasis on relationship banking and customer service with the branch at their core (such as Metro Bank and Handelsbanken).

Specialised banks: There are a number of specialised banks that typically focus on specific sub-sectors of the market. These include both newly established banks and others that have been in existence for a significant period of time. This category encompasses a wide-range of business models, including:

- banks that focus on a specific product range and/or customer segment that may be underserved by the large and medium-sized banks and building societies due to their specialised nature and need for bespoke underwriting processes (examples include Shawbrook and OneSavings Bank); and
- newer entrants, yet to launch, with a digital-only offering (such as Atom Bank and Starling Bank).

Building societies: Building societies are owned by, and run for the benefit of, their members, who form the majority of a society's mortgage and savings customers. Building societies are governed by the UK Building Societies Act 1986 with regards to the type of assets and liabilities that they can originate, which among other things specifies that at least 75% of a building society's loan assets must be secured on residential property and at least 50% of funding is required to be raised from retail depositors. Nationwide is by far the largest building society followed by Yorkshire and Coventry Building Societies.

Credit unions: These are usually smaller lending institutions which are owned by their members. They typically serve those customers who are unable to access standard retail bank products through the established High Street banks.

Non-bank specialist lenders**:** The UK financial services market includes a number of non-bank finance companies such as short-term (or "pay-day") lenders, online specialists, peer-to-peer lending facilitators, crowd-funding providers and specialist mortgage lenders. These participants are active within the consumer and corporate lending markets and focus on niche areas where larger banks have typically chosen not to operate.

A number of non-financial groups, including retailers such as Tesco, Sainsbury's, Marks & Spencer and the Post Office, have seen an opportunity to leverage their trusted brands and deep client databases to establish their presence in the market for lending and savings products, often through co-operation agreements with existing banks and insurance companies.

3.3 Recent Government Support Schemes and Measures

A number of government measures have been taken to promote greater competition and lending in the banking industry. The FLS was introduced in July 2012 and provided banks with an incentive to lend through reducing funding costs for participants and linking access to the scheme to the amount of lending to the real economy. Funding under the scheme has been extended and will now run until January 2018 and has been limited to business lending. The total drawings as of 30 June 2015 stood at £61.4 billion, representing a significant increase from £17.6 billion as of 30 June 2013. The FLS has led to reduced competition for retail deposits as banks could access an alternative cheaper cost of funding. Conversely, the cheaper cost of funding has driven increased competition in mortgages and Commercial Segment lending, resulting in reduced asset margins.

The Help to Buy scheme, initially introduced by the government in April 2013, is designed to promote mortgage lending with the UK Government providing a guarantee/equity loan of up to 20% of the property value, allowing buyers to secure a mortgage with only a 5% deposit. It is primarily targeted at first time buyers and was extended until 2020 in March 2014. The UK Government is making up to £12 billion of support available in the form of government guarantees (Source: UK Government), leading to the number of first time buyers rising to the highest level since 2007 (Source: CML Press release, February 2015).

In the 2015 budget, the UK Chancellor of the Exchequer announced the imposition of an annual 8% corporation tax surcharge on bank profits over £25 million, effective from 1 January 2016, driven by a desire to ensure that banks make a fair contribution to the UK economy. It was also announced that tax relief on buy to let mortgages would be restricted to the basic rate of tax (phased in gradually from 2017 to 2020) and that the bank levy, an annual charge on the value of all debts of the UK banks (including money deposited) on a global basis (with some exemptions), will gradually reduce from 0.21% to 0.10% over the next six years and subsequently only apply to the banks' UK balance sheet liabilities. The 2015 Autumn Budget further imposed a three percentage points increase in stamp duty on the purchase of second homes and buy-to-let properties effective from April 2016.

3.4 Customer Perception and Competitive Dynamics

The UK Government has emphasised the need to introduce more competition into the SME and retail banking market, in response to poor customer satisfaction. Various research data highlighted the customer dissatisfaction with the incumbent banks. Three-quarters of banking customers said they would consider switching providers of which 48% cited dissatisfaction with customer service or products as the key driver (Source: Yougov Banking Customer Experience 2014). In another survey, 63% said they "do not trust any bank" and 69% did not agree with the statement that "high street banks treat their customers fairly" (Source: YouGov Research, May 2013). Further, London-based account holders, Metro Bank's core market, were found to be the most dissatisfied customers in the UK (Source: GfK Financial 2014).

Similarly, only 13% of SMEs surveyed stated that they believe their bank acts in the customer's best interest (Source: A CMA and FCA market study – Banking services to small and medium-sized enterprises), indicating the high level of dissatisfaction with the major High Street lenders. According to Sir Andrew Large's report "RBS Independent Lending Review", the larger banks have struggled to keep up with evolving customer preferences and have moved from a relationship-based model with a personalised service for SME customers towards a more centralised, commoditised product offering in order to reduce costs. This has allowed new entrants such as Metro Bank to differentiate themselves through their emphasis on customer service and a fair, transparent product offering.

There have been a number of initiatives to increase competition in the SME and retail banking market. The divestment by LBG of 631 branches and their accounts into TSB and the planned divestment by RBS of 314 branches into Williams & Glyn is expected to increase competition, while there are a number of banks that have recently been authorised or are in the process of being authorised, including Atom Bank (digital-only personal current account ("**PCA**") and SME), Starling Bank (digital PCA) and Civilised Bank (SME).

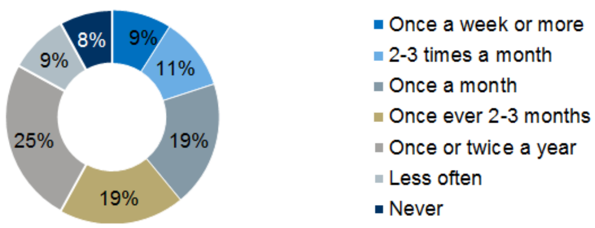
The Competition and Markets Authority ("**CMA**") is engaged in an investigation into the lack of competition in the PCA and SME banking markets. In July 2014, the CMA announced that it had provisionally decided to commence a market investigation reference in relation to both the PCA and SME banking markets and on 22 October 2015, the CMA published its provisional findings, identifying a number of competition issues in both the PCA and SME banking markets, which have been highlighted in the relevant sections below. The CMA is expected to publish its provisional decision on remedies in February 2016.

3.5 Importance of Branch Network and Digitisation of the Banking Model

As customers increasingly turn towards digital banking channels, the branch network for incumbent banks in the UK has been in decline. Over the last 10 years, 2,153 branches have closed in the UK resulting in one of the lowest density branch networks in Europe at 180 branches per million customers (Source: Deloitte Bricks and Clicks Report 2014) with a total of 9,661 branches at the end of 2014 (Source: CMA, October 2015). Total branch visits by PCA customers fell by 15% between 2012 and 2014 whereas online or mobile banking is now used by 77% of customers at least once a month (Source: BBA: Promoting Competition in the UK Banking Industry, June 2014). It is estimated customers in the UK log on to their mobile banking applications 10.5 million times a day to transfer £2.9 billion each week (Source: CMA Retail Banking Investigation, October 2015).

However, the branch remains an important part of the banking model in both the retail and SME markets. Whereas customers previously used the branch to conduct transactions and learn about products, they now demand a multi-channel (branch, web, mobile and telephone), more tailored offering suited to their convenience rather than the bank's. Branch convenience (location and opening times) is considered the third most important feature of a PCA for customers after quality of staff and customer service as well as quality and speed of handling problems (Source: GfK: Personal Current Account Investigation, April 2015) with 78% of PCAs opened in the branch in 2014 (Source: CMA, October 2015). For "commuter zones", customers require branch flexibility and an efficient, tailored service to suit their busy schedules (Source: Deloitte Bricks and Clicks Report 2014). Further, 83% of customers use branch services at least once a year, as illustrated by the chart below.

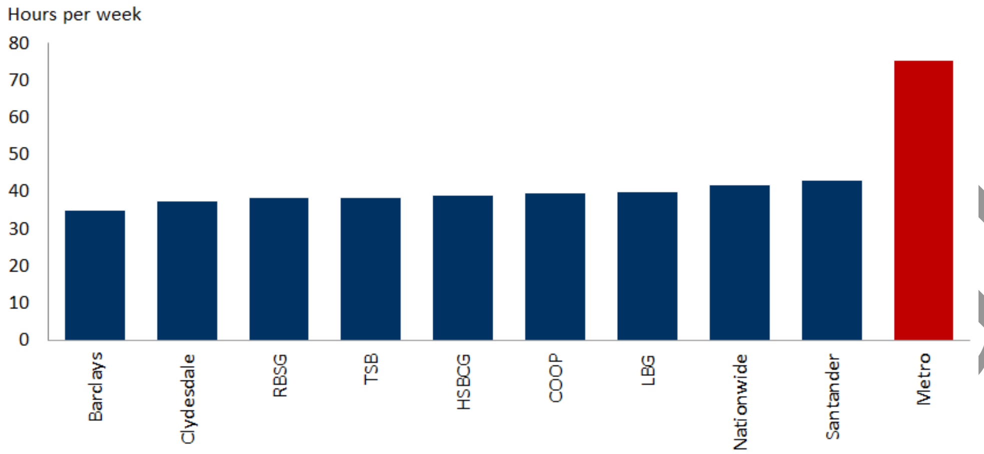
Frequency of branch visits



Source: CMA, Branches: Barriers to entry and expansion August 2015. Respondents asked 'How often, if at all, do you go into a bank branch for anything to do with your main current account?'

Average branch opening hours, as illustrated by the chart below, are broadly consistent across banks with the exception of Metro Bank which is open for more than 70 hours per week.

Average Branch Opening Hours in January 2015

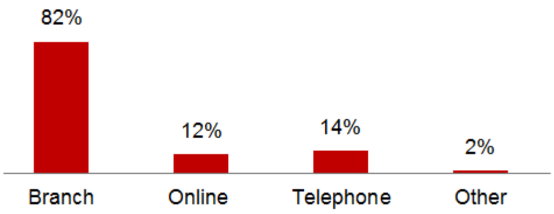


Source: CMA Retail Banking Investigation, October 2015

Deloitte's study on branch networks in the UK concludes that there are diminishing returns above approximately 8% branch share, beyond which only marginal improvements in population coverage are possible with additional branch numbers. Conversely, branch network expansion for a bank that has a lower than 4% branch share can lead to a more than proportionate increase in population coverage and potentially higher revenues (Source: Deloitte Bricks and Clicks Report 2014).

Branches are particularly important in the sale of core customer products (Source: BBA: Promoting Competition in the UK Banking Industry, June 2014), such as current accounts and mortgages. A survey conducted in June 2014 reported that 57% of banking customers agreed that branches were necessary for discussing banking issues, particularly for more detailed processes such as mortgage applications (Source: BBA – Promoting Competition in the UK Banking Industry, June 2014). In the SME market, at least 80% of SMEs had visited a branch counter service over the past year and 82% of SME start-ups open their business current account at a branch (Source: CMA, Retail banking Market Investigation October 2015), as illustrated by the chart below. After free banking, the most important factors behind the choice of business current account ("**BCA**") provider for an SME start-up were branch location and the bank being the SME owner's personal bank.

Business Current Account Openings by Channel, SME start-ups



Source: Charterhouse Survey 2014, Base: 252 SMEs
In response to the survey question 'What channels did you use to open your account?'

At the same time, the UK banking industry is increasingly adopting new technologies; for example, providing multi-channel services such as online and mobile banking which complement the in-branch services. Branches are also becoming more digitally focused with a migration towards self-service technology (including "smart ATMs" with enhanced functionality).

4 Retail Deposits

4.1 Market Overview

Retail customer deposits comprise the savings held by banks on behalf of their customers. Banks can pool together such funds on a short-term basis and facilitate a more efficient allocation of capital across the economy by lending the funds to selected borrowers for a longer term. The stability of the funding base and liquidity of financial institutions are thus critical for the financial system due to the role retail banks play in maturity transformation.

The UK retail deposit market is segmented into: (a) current accounts; (b) sight deposits, where the entire balance is accessible without penalty, either on demand or by close of business; and (c) time deposits/savings products, where deposits are not accessible without penalty, on demand or by close of business. Tax-free Individual Savings Accounts ("**ISAs**") accounted for 17% of the retail deposit market at £261 billion as of 31 August 2015. The UK Government, via the Financial Services Compensation Scheme ("**FSCS**") provides a Government guarantee for retail deposits of up to £85,000 per person, reducing to £75,000 (sterling equivalent of €100,000 as required by the Deposit Guarantee Schemes Directive) from January 2016 due to movements in the EUR/GBP exchange rate.

The retail deposit market can be divided into "primary" and "secondary" markets. In the primary market, customers use the current account for everyday transactions, usually where there is a direct deposit of salary and use of direct debits for regular bills. In the secondary market, a customer opens a second account with another provider.

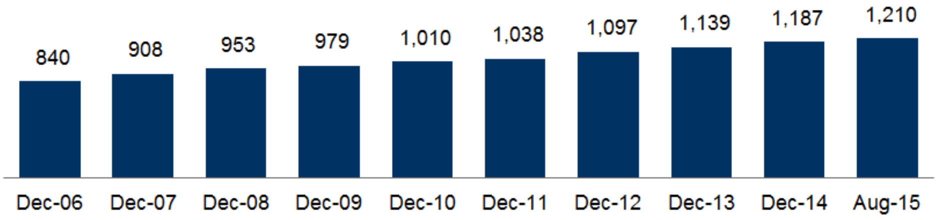
Primary market: Primary customers use the account for everyday transactions, such as the direct deposit of salaries and direct debits for bills. They are likely to hold further products, such as mortgages, credit cards and loans, and tend to be more sticky customers (Source: CMA – Personal Current Accounts). Larger banks hold a leading share of the primary market.

Secondary market: This segment is driven more by price and/or customer service, compared to the primary market.

Total household deposits (including PCA balances) stood at £1,210 billion as of 31 August 2015 (Source: Bank of England). Over the three years to August 2015, household deposit balances have grown at a CAGR of 3.9%.

The growth in household deposits is illustrated in the chart below:

Sterling Deposits from Households (£ billion)



Source: Bank of England, Datastream Series LPMVWLM

The distribution of retail deposit products in the market is through three primary channels:

- face-to-face sales to consumers by providers through their High Street branches;
- direct sales to consumers by providers through the telephone, internet and post; and
- sales to consumers through online price comparison sites.

4.2 Personal Current Accounts

(a) **Introduction**

A PCA is central to most retail customers' personal finances and it typically defines their primary relationship with a bank. PCAs provide customers with facilities to hold deposits, receive and make payments, and to use ATMs. Many PCAs provide overdraft facilities which grant customers a line of credit. The UK PCA market is a mature market with 97% of UK adults holding at least one PCA (Source: CMA, October 2015) and 40% having more than one (Source: Office of Fair Trading: Review of the Personal Current Account, January 2013).

There are various types of PCAs, including:

- "standard" accounts with no fixed charge (62% of all PCAs in 2014);
- "reward" accounts that offer a monthly cash payment or cashback and generally have a monthly fee of £2 to £5 (12% of all PCAs in 2014). The proportion of reward accounts has increased from 8% of new PCAs in 2011 to 25% in 2014;
- "packaged" accounts which provide additional products such as phone insurance for a fixed monthly charge (9% of all PCAs in 2014);
- "basic" accounts which provide a simple cash and payments facility without access to any overdraft (11% of all PCAs in 2014); and
- "student"/"youth" accounts (Source: CMA, October 2015).

(b) **Key Metrics**

The UK has approximately 67 million active PCAs (Source: CMA Personal Current Accounts Market Study, Retail Banking Market Investigation October 2015). Since 2007, the number of active PCA accounts in the UK has grown by approximately 24% (Source: OFT PCA Review). Annual new account opening has remained broadly consistent at 6.0 million in the UK since 2011 (Source: CMA, October 2015).

Approximately 75% of all PCAs in the UK in 2014 were "free if in credit" accounts. There were £183 billion of gross PCA deposit balances and £8 billion of outstanding PCA overdraft balances in the UK as of 30 June 2014 (Source: CACI). In terms of revenue for retail banks, a CMA investigation (October 2015) identified that income generated by providers of PCAs was £8.7 billion in 2014.

(c) **PCA Distribution Channels**

Historically, branches have been the most important channel for PCA sales and there is a strong correlation between a UK bank's national share of branches and its PCA market share. However, a growing trend is emerging for PCAs set up via online channels. Advancements in technology have resulted in an increase to the channels available for customers to manage their PCAs, increasing the number of online and mobile transactions.

(d) **Competitive Landscape**

The UK PCA market remains highly concentrated with the four largest providers (HSBC, Barclays, RBS and Lloyds) having a market share of more than 70% of active PCAs (Source: CMA October 2015) and losing only 5% market share since 2005 (Source: CMA, October 2015). A consumer survey conducted by the CMA found that in 2014, 57% of respondents had been with their main PCA provider for more than 10 years and 79% had neither searched nor switched in the last year (Source: CMA, October 2015). A CMA study on PCAs conducted in July 2015 found that among the smaller banks, only Metro Bank had increased its market share in recent years.

A number of recent developments have reduced concentration in the PCA market:

(a) the introduction of the Current Account Switching Service ("**CASS**") in September 2013 by the UK Payments Council, which guarantees that an account can be switched within seven working days, with existing payment arrangements automatically transferred to the new account. Currently, 40 banks and building societies participate, including Metro Bank. In the 12 months following the introduction of the scheme, there was a 22% increase year-on-year in PCA switching volumes in the market to 1.2 million (Source: BACS). However, consumer awareness and annual switching levels remain low with only 3% of customers switching banks each year and 8% over the past three years, compared to switching levels of 13% in savings products and 31% in energy over the same three years (Source: CMA, October 2015). The branch-based sort code structure used for PCAs and the lack of catalysts (as PCAs have no contract end date) also contribute to the low switching rate;

(b) new entrants such as Metro Bank; and

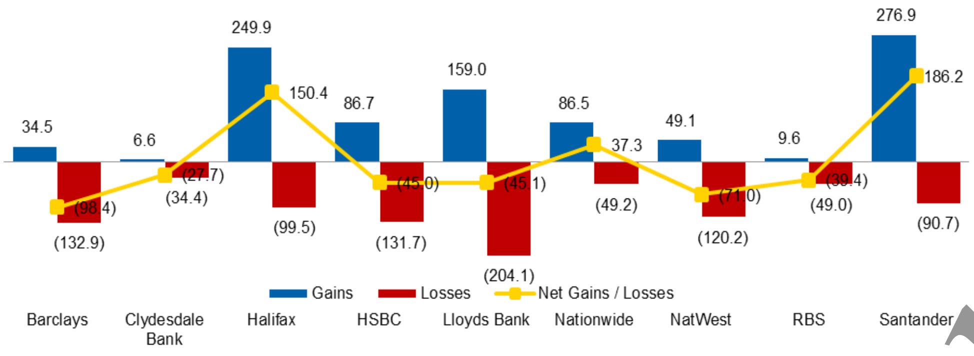
(c) the required divestment (under state aid regulations) by LBG of 631 branches and their accounts into TSB bank, recently acquired by Banco Sabadell, and by RBS of 314 branches into Williams & Glyn.

There is limited price competition in the PCA switching market as PCAs are nominally "free if in credit" accounts and greater emphasis is placed on branch network, multi-channel offering and customer service.

The biggest immediate net gains as a result of CASS were made by Santander and Halifax (as illustrated by the chart below), as they offered various incentives such as a switching payment and monthly rewards (provided certain criteria were fulfilled). The Santander 123 account, launched three years ago, which offers cash back on selected household bills and an interest rate of up to 3%, has been popular among customers. However, the recently announced 150% increase in the annual fee from £2 a month to £5 from January 2016 on the Santander 123 current account is starting to lead to larger gains for the smaller market players.

The gains and losses by banks as a result of CASS are illustrated in the chart below:

Current Account Switches (using CASS) in 2014: Gains/(Losses) By Bank (000s)



Source: BACS Report 2014
Note: Data for Metro Bank and TSB for the above chart was not available from BACS for 2014

Recent research by the FCA, however, found that consumers lacked awareness of CASS and the UK Payments Council reported in December 2014 that less than 50% of consumers were confident that CASS would complete their switch without error. Further, overdraft consumers, despite having the most to potentially gain from switching, were less likely to switch than other customers (Source: CMA, October 2015).

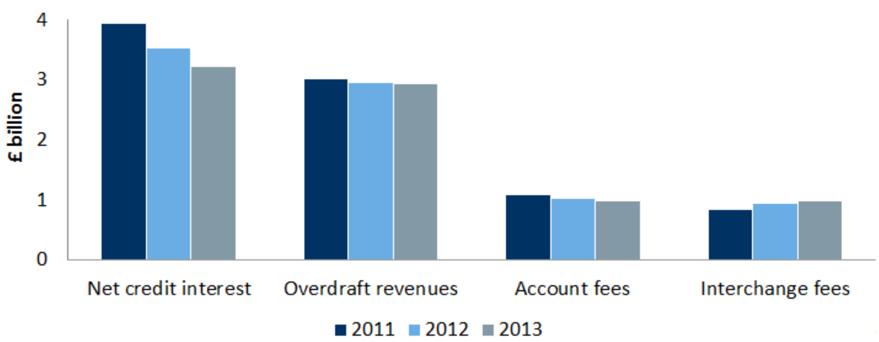
A market survey conducted by GfK suggests an inverse relationship between quality of service and market share (illustrated by chart below). According to the survey, "quality of staff" and "customer service" were ranked as the most important feature of a bank account and 83% of customers rated it as either "essential" or "very important".

How Retail Banks make Money from PCAs

PCAs represent a low-cost source of funds for banks. The key source of income generated from PCAs is net interest income on deposits and overdraft balances, and fees and commissions from associated banking services. Fee income is also generated from packaged PCAs which incur a fixed monthly charge and are the most profitable type of PCAs (Source: CMA, October 2015).

According to the OFT, the total income earned by providers of PCAs decreased from £8.9 billion in 2011 to £8.7 billion in 2014 (Source: CMA PCA Market Study, July 2014, CMA Retail Banking Investigation, October 2015), driven by a fall in net credit interest and overdraft revenues, as illustrated by the chart below. The decline in net credit interest is attributable to a fall in wholesale interest rates, a trend that may reverse if interest rates rise in the future.

Total PCA Revenues for the UK Banking Industry

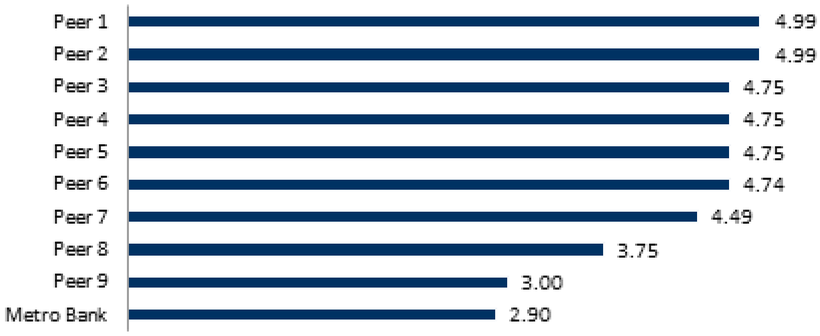


Source: CMA Information Requests
Note: Account fees are shown net of cashback costs for providers

The rise in interchange fees has been driven by an increase in the number of debit card transactions for purchases in the UK and a rise in interchange fees per transaction. In July 2013, the European Commission published plans to cap interchange fees at 0.2% for debit card transactions and 0.3% for credit card transactions (Source: European Commission). On 29 April 2015, the European Parliament voted to adopt a multilateral interchange fee regulation. The interchange fee caps came into effect on 9 December 2015 and the majority of provisions relating to business rules come into effect on 9 June 2016. Figures from the British Retail Consortium estimate the cap could save UK merchants £480 million each year and may threaten the viability of "free if in credit" pricing for some PCA providers and 0% balance transfers (for several months) on credit cards.

The cost for a £100 cash withdrawal in Europe is illustrated below, with Metro Bank offering the cheapest services and the larger banks among the costliest.

Cost of £100 Cash Withdrawal in Europe



Source: CMA October 2015

4.3 Savings Accounts

(a) **Introduction to Savings Accounts**

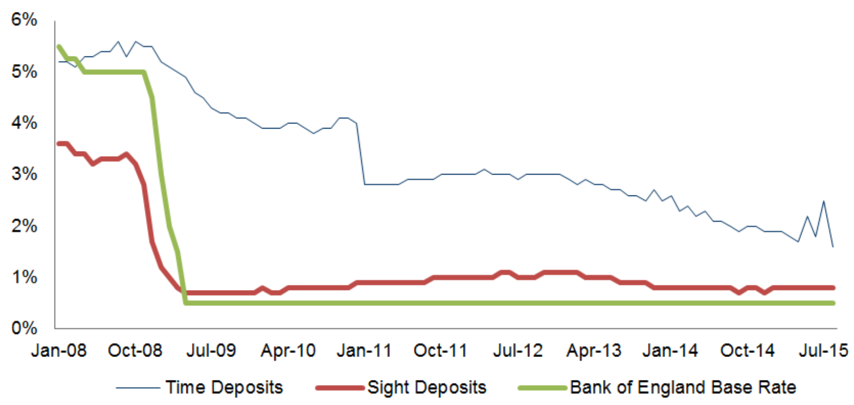
Savings accounts allow customers to deposit cash funds and receive interest on those funds, which is typically higher than funds held in a PCA. Approximately 93% of adults in the UK have a cash savings account (Source: Mintel: Deposit and Savings Accounts UK). There are two main types of savings accounts:

- *Fixed rate savings accounts* (sometimes referred to as "time" or "term" deposits) offer a fixed interest rate for a fixed term; and
- *Variable rate savings accounts* pay a variable rate of interest (which may change at the discretion of the bank or building society but often moves in response to changes in the prevailing Bank of England base rate).

A subset of fixed and variable rate savings accounts are cash ISAs, the income generated from which is exempt from tax.

The chart below displays trends in the customer rates for time deposits (also known as "term" deposits) and instant-access savings deposits, as well as the official rate set by the Bank of England. The gap between the interest rates paid on time deposits compared to instant- access deposits reflects the premium banks attach to time deposits, which are held for longer periods.

Customer Deposit Rate Evolution

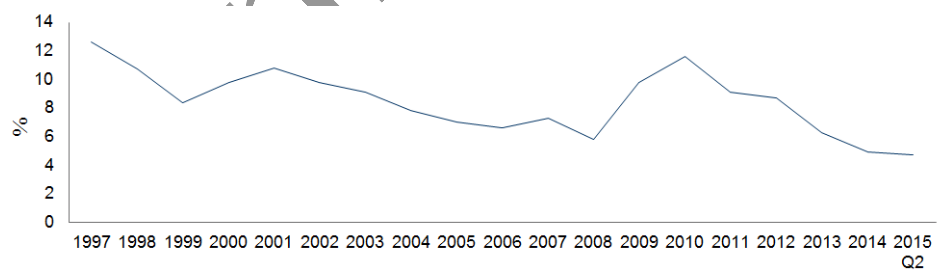


Source: Bank of England, Datastream Series LPMZ3U9 (Time Deposits), LPMZ3U7 (Sight Deposits), IUDBEDR (Official Bank Rate)

Between 2008 and 2009, the decline in the Bank of England base rate was sharper than the decline in interest rates offered for customers' deposits. This has resulted in savings deposits becoming a relatively more expensive source of funding compared to the official rate than before the financial crisis. The two spikes in 2015 represent higher rates offered by newer entrants such as Charter Savings Bank which is paying 2.07% on its one year fixed rate account and 2.95% on its five year fixed rate account, leading to a "price war" among new online/digital-only entrants.

The UK savings ratio, the percentage of disposable income that is saved, is a key determinant of the growth of savings balances, as illustrated by the chart below. The UK savings ratio was 4.7% in the second quarter of 2015 and is currently below its average over the last 10 years as the low interest rate environment discourages savers. The savings market is expected to grow in line with economic growth, particularly in the context of a likely rising interest rate environment.

UK Savings Ratio



Source: ONS

(b) **Savings Distribution Channels**

Savings accounts are distributed through multiple channels. While the majority of savings accounts are still distributed through branches, an increasing number of people are using the internet and particularly price comparison websites to search for the best rates on offer (i.e., "best buy tables"). Some banks offer different savings rates through different channels.

(c) **Savings Competitive Landscape**

As of October 2014, 109 banks, building societies and credit unions offered cash savings products in the UK, with the six largest providers (HSBC, Barclays, RBS, LBG, Santander and Nationwide) holding approximately 68% of all cash savings balances. Estimates of market concentration show that while the cash savings market has remained relatively concentrated for a number of years, the divesture of TSB Bank from LBG and the increasingly influential presence of newer providers such as Tesco Bank and Metro Bank decreased market concentration in 2014 (Source: Financial Conduct Authority – Cash savings market study report: Part I: Final findings Part II: Proposed remedies).

In contrast to Metro Bank which offers the best available rate to all its customers, several providers generally pay lower interest rates on older accounts than on accounts opened more recently through "teaser"/bonus rate products (Source: FCA). There has been strong recent price competition among the newer entrants that raise their deposits online only as they seek additional deposits with rates of over 2% offered by some newer banks (such as Charter Savings Bank) on one-year fixed rate deposits.

5 Residential Mortgages

5.1 Introduction

The most common form of financing in the UK to purchase residential property is a loan secured by a mortgage, using the property as collateral against the amount borrowed.

There are two principal categories of mortgage product in the UK residential mortgage market:

- *Owner-occupied mortgages*: provide financing to owner-occupiers, including first-time buyers, home-movers and those wishing to re-mortgage. This is the largest segment of the mortgage market, with £1,071 billion of outstanding balances as of 31 December 2014, or 85% of outstanding balances in the market (Source: Council of Mortgage Lenders).
- *Buy-to-let ("**BTL**") mortgages*: provide financing for individuals who intend to rent out the purchased property. The BTL market had £188 billion of outstanding balances as of 31 December 2014, or 15% of outstanding balances in the market (Source: Council of Mortgage Lenders).

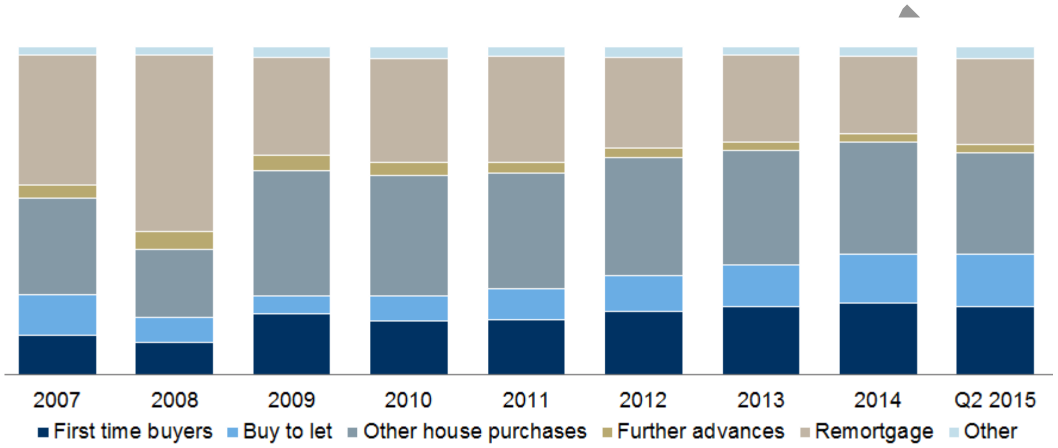
Within those categories, mortgage products can vary depending on:

- *Interest rate type*: variable rate mortgages, fixed rate mortgages and tracker mortgages; and
- *Repayment type*: "repayment", "interest-only" and "part repayment/part interest-only".

Mortgage interest rates vary depending on the size of the mortgage at origination relative to the value of the property on which the mortgage is secured (defined as Loan to Value or "**LTV**"), the size of mortgage relative to gross income of the borrower (defined as "**LTI**"), the category of mortgage (owner-occupied versus BTL), the borrower's credit history and the prevailing Bank of England base rate. Mortgage rates increase with LTVs and LTIs as the impairment risk increases and higher LTVs may be subject to higher regulatory capital requirements in the future. As of 30 June 2015, 66% of the outstanding residential mortgages had an LTV below 75% and 97% below 90% (Source: FCA). BTL mortgages tend to have higher rates than owner-occupied mortgages at comparable LTV ratios.

The residential mortgages market has experienced a strong recovery since 2010, expanding at a CAGR of 11% to £203 billion in gross advances in 2014 (Source: Building Societies Association). In particular, the market for first-time buyers has seen a significant increase, with the number of first-time buyers rising to more than 300,000 in 2014, the highest since 2007 (Source: Council of Mortgage Lenders). This is partly as a result of the UK Government's "Help to Buy" scheme which was launched in 2013 and provides shared-equity schemes for first-time buyers. The scheme was originally intended to run until 2017, but was extended until 2020 in March 2014. The chart below illustrates the residential loans to individuals by purpose showing an increase in the proportion of first-time buyers and buy-to-let purchases since 2008.

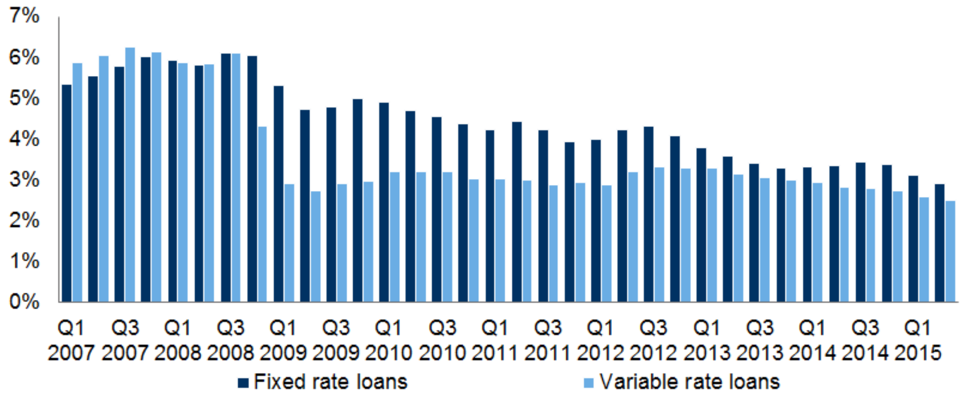
Purpose of Residential Loans to Individuals



Source: FCA
Note: Represents residential loans to individuals

Average overall customer rate on residential mortgages has declined from 5.5% at the start of 2007 to 2.8% at the end of the second quarter of 2015 (see chart below), with the recent decline aided by government measures such as quantitative easing and the FLS.

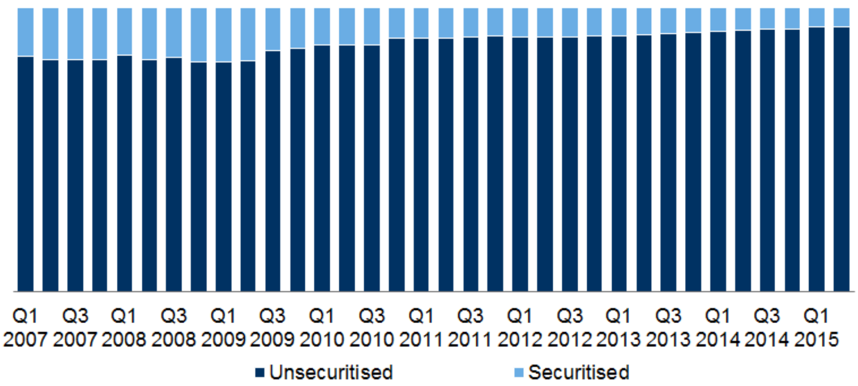
Weighted Average Interest Rates



Source: FCA

At the same time, as shown in the chart below, the proportion of residential mortgages that were securitised has declined from 18.9% in the first quarter of 2009 to 6.6% in the second quarter of 2015.

Proportion of Mortgages Securitised



Source: FCA

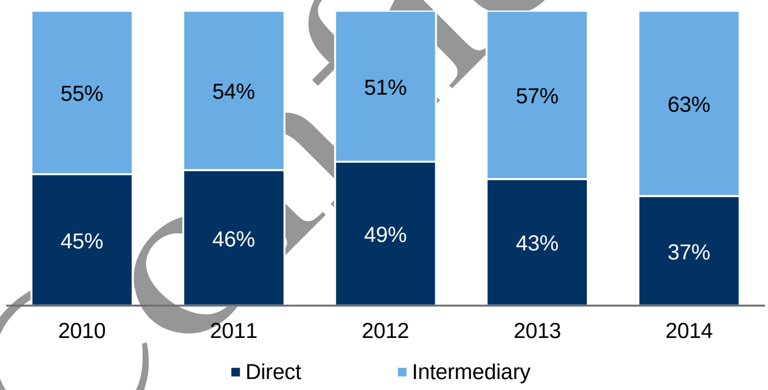
5.2 Mortgage Distribution

Mortgages are primarily distributed through two channels:

- *intermediaries*: provide advice to consumers and introduce mortgage business to lenders; and
- *direct-to-consumer*: by lenders through High Street branches, internet and telephone.

Intermediaries play an important and growing role in UK mortgage distribution, and accounted for 63% of mortgage origination in 2014, as shown in the chart below. The intermediary channel enables smaller lenders to compete for mortgage business on a national scale since it reduces the need to have an extensive branch network.

Mortgage Distribution Channels



Source: CML Regulated Mortgage Survey

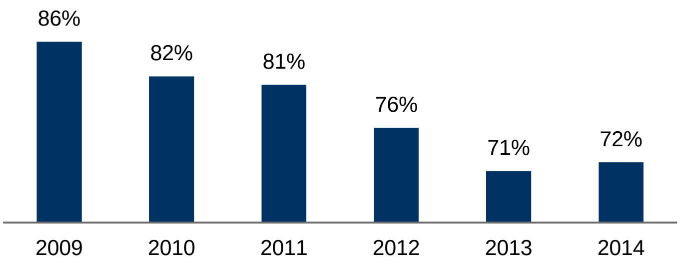
The second distribution channel is direct-to-consumer. The larger established banks are more likely to rely on direct distribution though an existing network of branches and avoid paying commission to intermediaries. The telephone and internet are used to originate mortgages but without the cost associated with a physical branch network. Traditionally, customers sought face-to-face interaction when buying a mortgage, but there is an increasing presence of mortgage offerings online, partly due to the popularity of price comparison websites.

The recent Mortgage Market Review ("**MMR**") reforms came into force on 26 April 2014 and affect the UK mortgage distribution market. MMR has effectively shifted the responsibility for verifying income and assessing whether the customer can afford the loan to lenders and also prohibits non-advised mortgage sales. As a result, lenders without sufficient in-house advisory capabilities are increasingly relying on intermediaries to provide such services.

5.3 Competitive Landscape

The competition has increased in the UK residential mortgage market recently. In 2009, the six largest lenders together accounted for 86% of gross mortgage advances, as illustrated in the chart below. In 2014, the proportion of gross mortgage advances made by the six largest lenders decreased to 72% (Source: Council of Mortgage Lenders).

Gross Lending Market Share of the Six Largest UK Mortgage Lenders



Source: Council of Mortgage Lenders 2014

The six largest mortgage lenders and their respective share of gross advances in 2014 were LBG (19.8%), Santander (13.5%), Nationwide (13.2%), Barclays (10.0%), RBS (9.7%) and HSBC (6.2%) (Source: Council of Mortgage Lenders 2014).

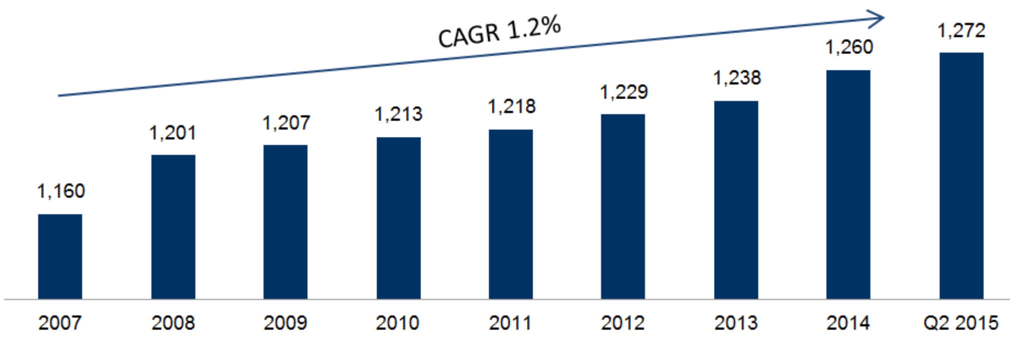
The remaining part of the market is served by Yorkshire Building Society (3.7%), Coventry Building Society (3.6%), Virgin Money (2.9%), Clydesdale (2.5%) and other smaller lenders (Source: Council of Mortgage Lenders 2014).

The market dominance of the largest lenders has decreased due to several factors described earlier in this section, including liquidity and capital constraints, deleveraging and an increase in lending by mutuals, challenger banks and smaller banks. These lenders have been less affected by the capital constraints and legacy issues facing a number of the larger banks.

5.4 Key Metrics

The total value of outstanding residential mortgage balances to individuals in the UK was £1,272 billion as of 30 June 2015 and has been relatively stable over recent years, with a CAGR of only 1.2% between 2007 and 2014 as shown in the chart below (Source: FCA Mortgage lending statistics).

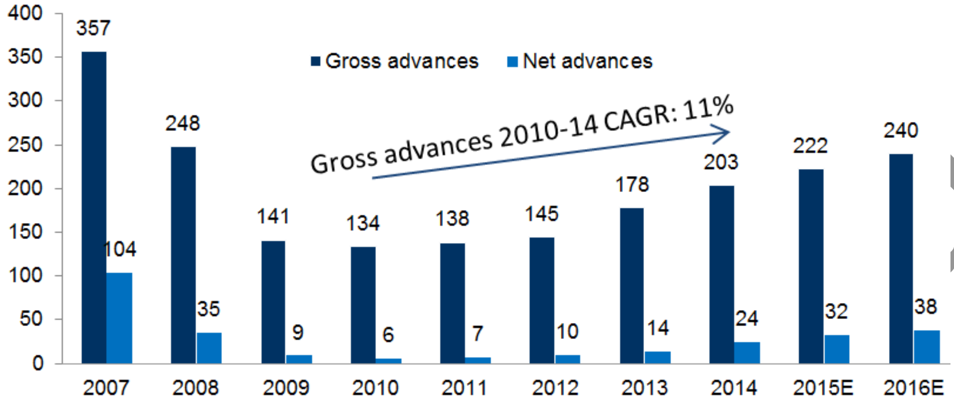
Total Outstanding Residential Mortgage Balances (£ billion)



Source: FCA

There has been a significant reduction in gross lending from the pre-crisis peak, as shown in the chart below. Gross lending in 2007 was £357 billion compared to £203 billion in 2014. The mortgage market started recovering in 2010 and increased at a CAGR of 11% between 2010 and 2014 (Source: Council of Mortgage Lenders).

Total Gross and Net Mortgage Lending (£ billion)



Source: CML

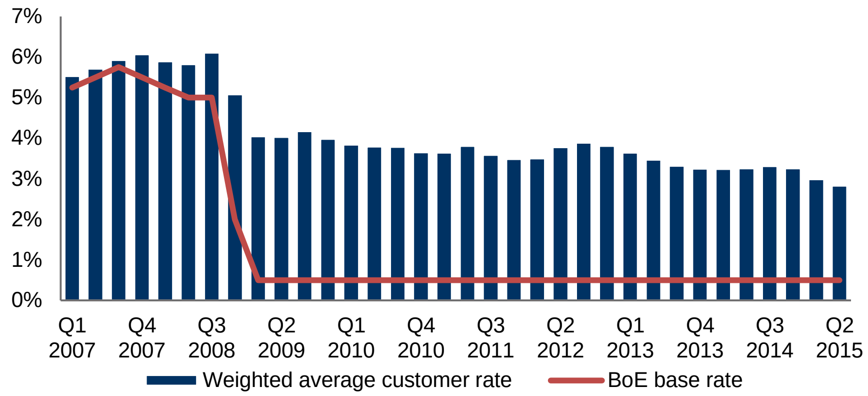
Customer demand for mortgages is affected by the strength of the housing market, among other factors. Average house prices in the UK fell by 17% from the peak in November 2007 to the trough in April 2009 (Source: Land Registry). However, there has been a recovery since and prices are generally higher than the pre-economic downturn peak, with particularly strong growth in London and the South East, Metro Bank's core market.

House price inflation has exceeded wage inflation, constraining customers' affordability for residential mortgages and raising concerns of a potential overheating of the UK housing market. The house price to earnings ratio (a measure used for mortgage affordability and calculated using average seasonally adjusted house prices, average disposable earnings and the Bank of England's monthly average rate for new advances) increased from 4.42x in the last quarter of 2012 to 5.26x in the second quarter of 2015. Over the same period, the house price to earnings ratio in Greater London increased from 5.43x to 7.84x (Source: Halifax House Price Index).

5.5 How Lenders make Money from Mortgages

The key source of income for mortgage providers is the interest rate spread on the mortgage book, i.e., the difference between the rate charged to the customer and the cost of funding. As presented in the chart below, the spread has widened significantly since 2008. The interest rate charged to customers has decreased at a much slower rate than the base rate, which is directly correlated to the funding cost for banks, implying an improvement in the overall profitability of mortgage lending.

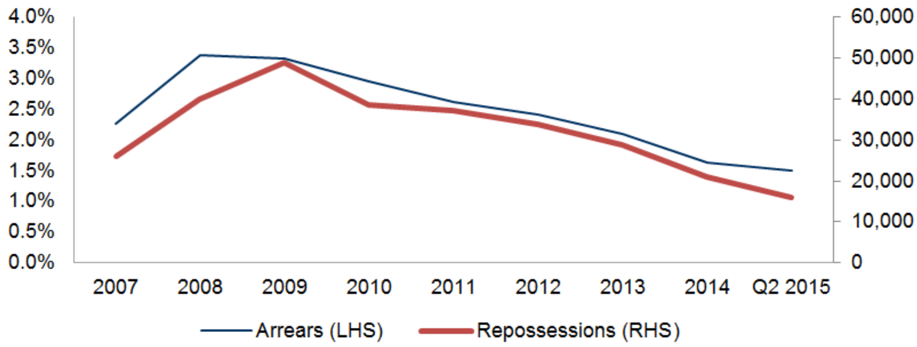
Customer Rate for Residential Mortgages and BoE Base Rate



Source: FCA. Note: Customer rate represents weighted average interest rate on all new residential mortgages to individuals

As illustrated by the chart below, the increased spread has also been supported by an improvement in arrears and repossessions since their peak in 2009. According to the Council of Mortgage Lenders, repossessions decreased from a peak of 48,900 in 2009 to 21,000 in 2014, underpinned by strong economic fundamentals and a robust housing market.

UK Mortgage Arrears(1) and Repossessions



Source: FCA, CML Note: (1) Represents balances in arrears as a percentage of total loan balances for residential loans to individuals

6 SME Banking

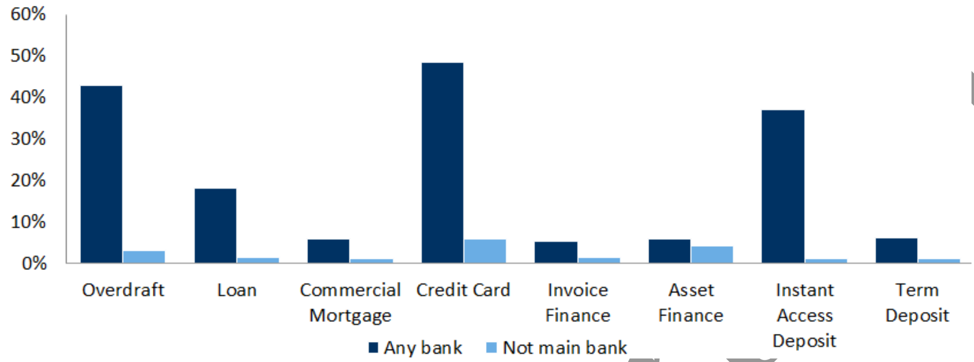
6.1 Introduction

SMEs play a vital role in the UK economy and have seen a steady increase in number since the 2008 financial crisis. At the start of 2015, the number of SMEs in the UK exceeded 5.4 million, employing 60% of all private sector workers and accounting for nearly half the annual turnover of all private sector businesses (Source: BIS, October 2015). Total SME borrowing outstanding totalled £98 billion (see chart below) at the end of June 2015, a 2.3% decrease compared to the prior year, whereas total SME deposits increased by 9.7% in the year to June 2015 to £157 billion (Source: BBA: Bank Support for SMEs, Q2 2015).

The financial crisis and subsequent tightening regulatory requirements and deleveraging has contributed to the larger banks reducing their lending, particularly to the SME sector, forcing businesses to turn to other lenders and alternative forms of credit. In order to promote lending to the real economy, the UK Government (supported by the Bank of England) has taken several measures, including the establishment of the British Business Bank, the introduction of the FLS which links access to the amount of lending to SMEs, quantitative easing, the National Loan Guarantee Scheme and the Business Finance Partnership.

SMEs utilise external finance for a variety of reasons, including expanding the business (30%), covering cash flow shortfalls (28%) and purchasing new equipment (22%) (Source: CMA Retail Banking Investigation. October 2015). The products used by SMEs are principally BCAs, overdrafts, loans and credit cards. In 2014, 48% of SMEs had credit cards and 43% had overdraft facilities, compared to only 18% which held a loan in the last 12 months (see chart below).

Proportion of SMEs Holding Banking Products



Source: CMA, Retail Banking Investigation October 2015, Charterhouse BBS 2014
Base: All SMEs asked about other products (4,993)

Most lending is taken out by larger SMEs with greater than £2 million turnover. SMEs with a turnover below £2 million accounted for 95% of all SMEs but less than half of new loans by value in 2014 (Source: CMA Retail Banking Investigation, October 2015). There is a high level of natural turnover with a number of SMEs starting or ceasing to trade each year, reflected in the level of churn in BCAs. Approximately 12% of BCAs were opened and closed in 2014, and on average, only 60% of SMEs will be in business after three years (Source: CMA, October 2015).

6.2 Distribution

The main distribution channels used by SMEs are branches, online channels and by telephone (Source: YouGov). Relationship managers, who have an understanding of each business, provide a single point of contact for larger SMEs (Source: YouGov – SME Banking). SME customers use multiple channels, preferring digital options for simple interactions and using personal interaction for more complex banking needs (Source: YouGov).

Personal contact and branch banking are important to SMEs. The largest SMEs place significant value on personal service and face-to-face contact from banks. 54% of SME customers visit a branch at least once a month and SMEs' most preferred means of communication with a bank is over the telephone with a branch employee (Source: YouGov – SME Banking Data).

A strong digital presence is important for SME customers as they make frequent use of online banking, with 64% of SMEs using online banking as their main channel (Source: CMA, October 2015), up from 48% in 2010.

6.3 Competitive Landscape

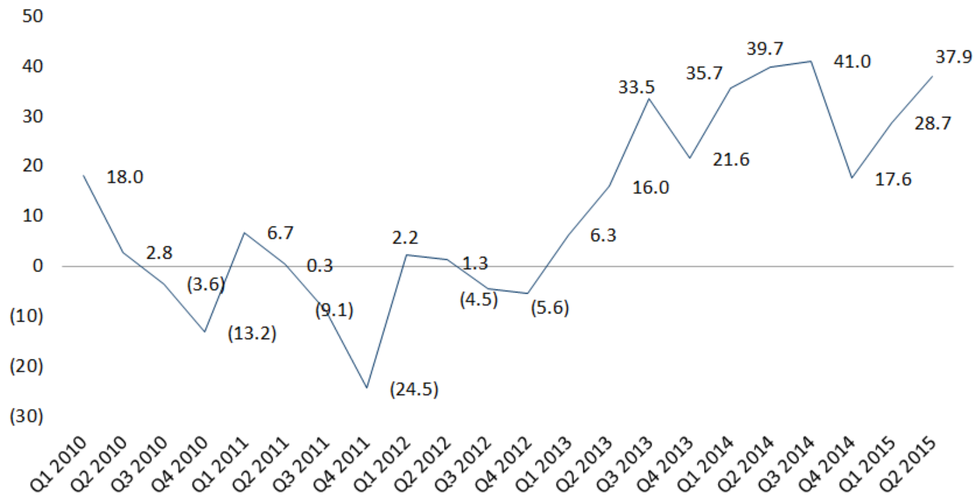
The market for SMEs is relatively concentrated, with the share of the four largest banks remaining broadly stable at around 80% since 2012. It generated annual revenues of £7.1 billion in 2014 for the seven largest banks in the UK. BCA market share is similarly concentrated, with the four largest banks accounting for over 80% of main banking relationships. The Office of Fair Trading has previously highlighted the high barriers to entry in the SME sector.

Although the UK market is generally stable, there have been successful new entrants, such as Metro Bank, which emphasises its branch network and local, face-to-face relationships, as well as its transparent product offering to build customer trust and loyalty. Metro Bank and Handelsbanken are the only providers of cash management services to SMEs among the smaller banks which, along with BCAs, often forms the cornerstone of an SME relationship - see Section 6.5 Business Current Accounts and Deposits and Section 6.6 Cash Management for further details.

6.4 Trends in SME Lending

Demand for SME finance is driven by business confidence and hence investment. The growth in levels of business investment was 8.0% in 2014 and is expected to be 6.0% in 2015 and 7.2% in 2016 (Source: Office for Budget Responsibility – Economic and Fiscal Outlook, July 2015). Business investment increased 11% in the first half of 2015, compared to the same period in 2014 (Source: ONS, Q2 2015). The continued economic recovery has also led small business confidence to reach near multi-year highs, as illustrated by the chart below.

FSB Small Business Confidence Index



Source: Federation of Small Businesses Voice of Small Business Index Q2 2015

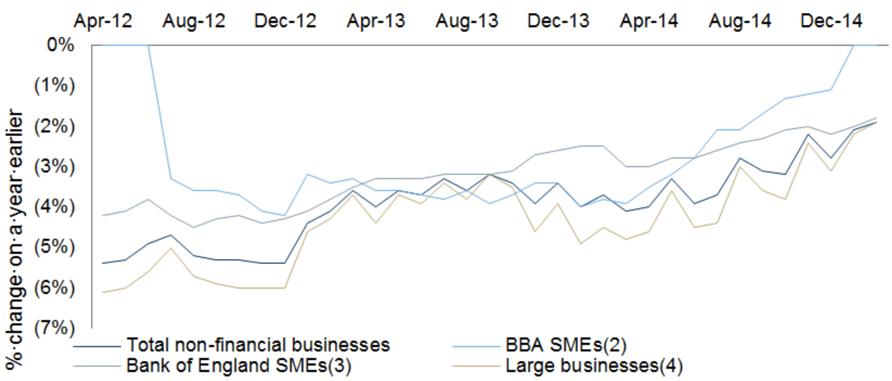
SMEs have generally experienced greater difficulty than larger corporates in accessing finance; however, acceptance rates have continued to improve over time with 79% of all applications in the last 18 months resulting in a facility being provided and 84% of overdraft applications being successful, the highest proportion recorded to date (Source: SME Finance Monitor, Q2 2015).

The use of external finance has remained lower than prior years with 36% of SMEs using external finance in the second quarter of 2015, compared to 46% in 2011 (Source: SME Finance Monitor, Q2 2015). SME products are often tailored to customers' individual requirements and incorporate a higher degree of customer interaction and service which larger banks are increasingly not able to, or unwilling to, provide for cost-efficiency reasons.

London and the South East, Metro Bank's core market, accounted for 32% of all outstanding SME loan balances of £98 billion and of the new loans approved in the second quarter of 2015 by value (Source: BBA, Bank Support for SMEs, Q2 2015).

Respondents to the Bank of England's Credit Conditions survey expected demand for bank lending to increase significantly from SMEs in the second quarter of 2015. However, despite the recent growth in demand, the growth rate in the stock of lending to SMEs has been negative for the past four years, according to data from the British Bankers' Association and Bank of England, although the rate of decline has decreased in recent months as confidence returns (see chart below).

Lending to SMEs(1)



Sources: BBA, Bank of England and calculations

Notes:

(1) Rate of growth in the stock of lending. Data covers lending both sterling and foreign currency, expressed in sterling. Non-seasonally adjusted

(2) Lending by a BBA panel of lenders to SMEs in Great Britain. SMEs are defined as businesses with turnover up to £25 million. Data are to December 2014

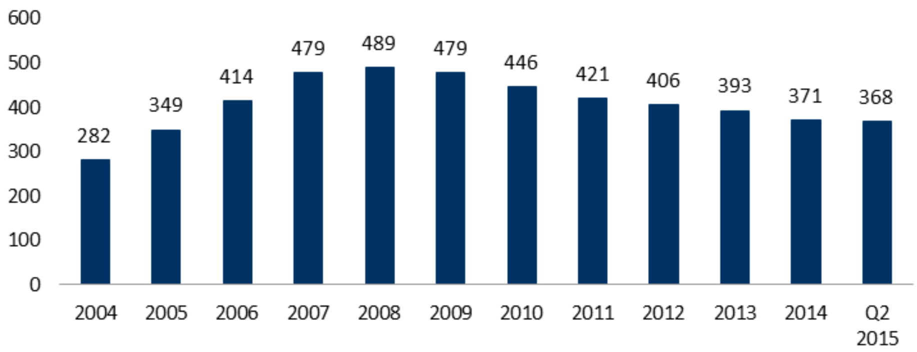
(3) Lending to UK SMEs with annual debit account turnover less than £25 million

(4) Lending to UK large businesses with annual debit account turnover over £25 million

As a result of the combination of growing demand through business confidence and lack of supply from incumbent banks, there has been a significant credit shortage in the SME segment. The Breedon Report, which was commissioned by the UK Government Department for Business, Innovation & Skills to specifically look at the topic of financing UK SMEs, estimated the SME credit gap between supply and demand could rise to c. £26 - £59 billion by 2016.

There have been signs of an SME market recovery recently. The decline in loans outstanding slowed in 2014 with a 0.8% increase in total loans to UK private non-financial corporations ("**PNFCs**") in the first quarter of 2015, as illustrated by the chart below.

Total Outstanding Loans to UK PNFCs (£ billion)



Source: Bank of England, Datastream Series LPMVVPD

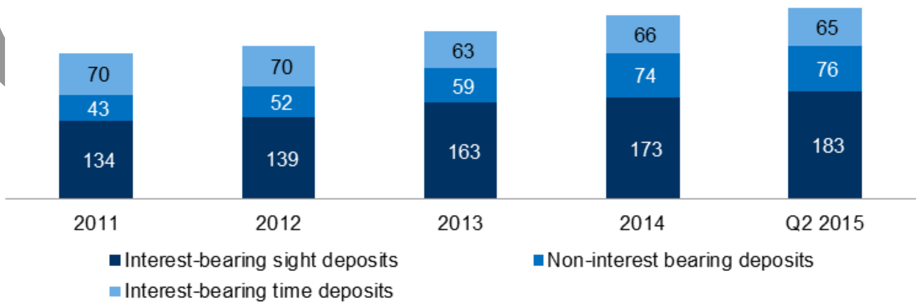
6.5 Business Current Accounts and Deposits

A BCA forms the basis of a broader banking relationship, as a majority of businesses borrow from their BCA provider. Unlike PCAs, there is little variation between types of BCAs. Banks typically either charge for each transaction or charge a monthly fee which will include a specific volume of transactions within the fee. The total size of the BCA market has remained relatively stable since 2012 at approximately 5.5 million accounts of which around 88% were active in 2014 (Source: CMA, October 2015).

The market is highly concentrated with the largest four providers (HSBC, Barclays, RBS and LBG) accounting for over 85% of BCAs and 90% of business loans. Switching levels remain extremely low with only 4% of SMEs switching banks each year, despite only 13% of SMEs saying that they trust their banks to act in their best interest (Source: CMA, July 2014). Further, approximately 51% of SMEs set up their BCA with their main PCA provider and 36% do so without searching at all (Source: Charterhouse Business Banking Survey 2014). A CMA survey found that awareness of CASS was low among SMEs with only 10% of BCAs switching through CASS in 2014.

As of 30 June 2015, cash held by PNFCs in current and deposit accounts totalled £324 billion, a 9.7% increase compared to the prior year (Source: BBA Bank Support for SMEs, Q2 2015). Deposits from businesses have continued to grow since 2011, as shown in the chart below.

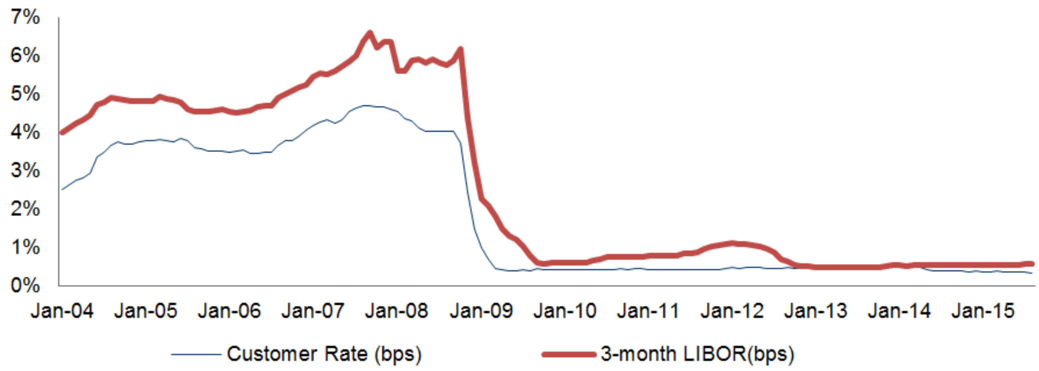
Total Deposits from PNFCs (£ billion)



Source: Bank of England Dataseries LPMB6S3, LPMZ3TX and LPMZ3U5

Customer rates paid on business deposit products have, in recent years, been lower than those for individuals. Consequently, SME deposits are very valuable as a source of low cost funding for banks. As illustrated in the below chart, customer rates for SME savings have fallen considerably as a result of the reduction in interest rates, however, more liquidity must be held against them. Similar to PCAs, the key drivers for BCA profitability are the number of active customers, level for fees charged, level of credit balances, income from overdraft fees and interest, and NIM.

Customer Rate for Private Non-Financial Corporations (PNFCs) Instant Access Deposits



Source: Bank of England Dataseries CFMHSCT, IUMAAMIJ

6.6 Cash Management

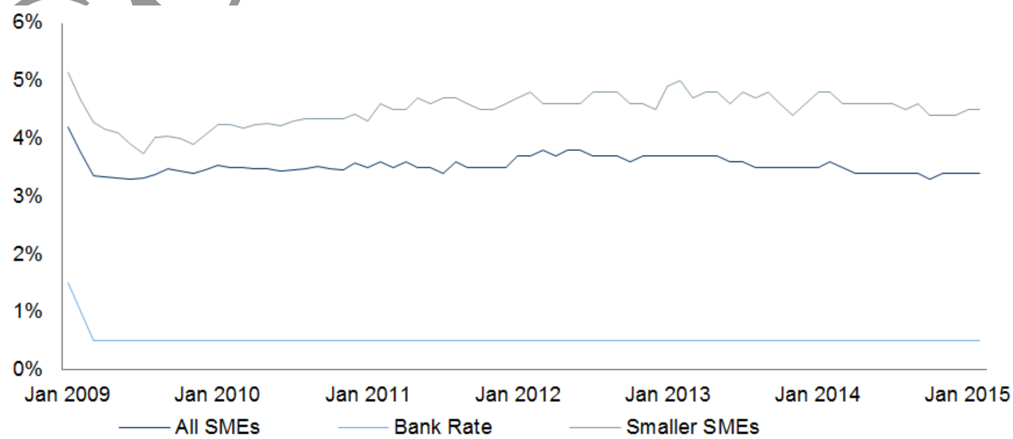
Cash or treasury management services include a broad range of services relating to the collection, concentration and disbursement of cash offered to businesses. It includes wire transfers, direct debit collection, merchant services and liquidity management among other services. Metro Bank and Handelsbanken are the only providers of cash management services to SMEs among the smaller banks, allowing them to establish a strong relationship with businesses through their full service offering.

6.7 How Retail Banks Make Money from Business Banking

Similar to retail banking customers, banks generate net interest income, fees and commission income from business banking.

As shown in the chart below, customer rates for lending to SMEs fell rapidly as interest rates declined during the financial crisis, but have increased gradually since. Customer rates did not fall as much as funding costs and consequently, loan product NIM increased.

6.8 Indicative Customer Rate for New Lending to SMEs



Source: Bank of England, Trends in Lending April 2015

There are a number of different lending products utilised by SMEs. Outlined over the following sections is an overview of the key products.

7 Commercial Mortgages

Commercial mortgages are secured against commercial properties such as retail premises, offices, industrial units and commercial and residential investment property, for example, a shop unit with flats above it. Customers for commercial mortgages include large corporates, SMEs and private property investors. Mortgage brokers play an important role in the distribution of commercial mortgages.

The High Street banks are the largest players in the commercial property market. In the SME and professional property investor markets, both specialist lenders and larger banks are present: for example, participants include Aldermore, LBG, Shawbrook and Santander. Specialist lenders have increased their market share following the financial crisis.

Demand in the professional buy-to-let market has been increasing in recent years, with 19% (4.4 million) of households renting privately, up from 11% in 2003 (Source: English Housing Survey Report 2013 – 2014). The privately rented sector is forecast to continue to grow and account for more than a third of the UK's housing stock by 2032 (Source: Civitas: The Future of Private Renting, January 2015).

The commercial mortgages market is particularly strong in London and the South East, with London accounting for over a third of total commercial property by value. Overseas customers are also an important component of commercial mortgages demand.

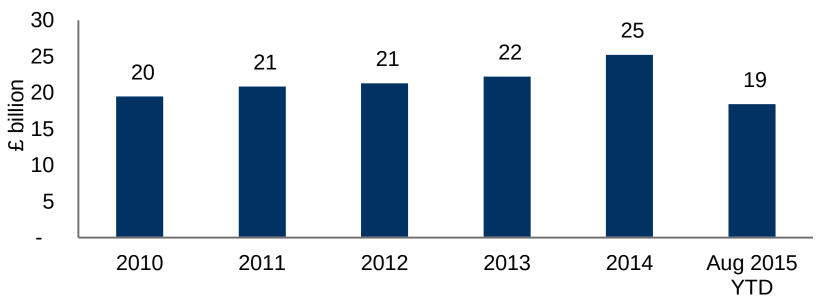
8 Asset Finance

8.1 Introduction

Asset finance offers SMEs a secured finance alternative to a traditional bank loan and is the third most common source of finance for businesses, after bank overdrafts and loans (Source: FLA). It involves a business paying for use of an asset over a period of time with the two most common types being, (i) leasing, where the customer rents the equipment without owning it; and (ii) hire purchase, where the customer buys the equipment on credit.

According to the Financing & Leasing Association, total asset finance origination by its members was £25 billion in 2014 (see chart below), representing 30.6% of UK investment in machinery, equipment and purchase software and a 13% increase compared to 2013 (Source: FLA). Government efforts to increase funding for SMEs such as the FLS and an increase in the annual investment allowance from £250,000 to £500,000 for all qualifying investments between April 2014 and December 2015 have helped promote lending to the sector.

Asset Finance Origination



Source: Finance & Leasing Association ("FLA")

Asset finance agreements are secured against assets (e.g., vehicles, office equipment, manufacturing equipment, IT equipment and telephony systems) with cars and plant and machinery being the most popular assets due to their established liquid secondary markets (Source: FLA).

8.2 Competitive Landscape

The main providers of Asset Finance in the UK can be broken down into: (i) the larger banks (Barclays, RBS, LBG and HSBC) that accounted for approximately 65% of the value of outstanding loans in 2014 (Source: CMA, Retail Banking Investigation, October 2015); (ii) original equipment manufacturers and vendors such as General Electric and Siemens; and (iii) specialised banks and lenders such as Close Brothers, Aldermore and Hitachi.

A key development of the Asset Finance segment was the exit of a major player, ING, in 2012 which is estimated to have created a gap of unserved credit demand of c. £1 billion for the rest of the sector. The high yields available in the sector make it attractive for companies looking for superior returns – e.g., Paragon's acquisition of Five Arrows for £117 million in October 2015.

9 Invoice Finance

9.1 Introduction

Invoice financing enables SMEs to meet their working capital requirements through invoice discounting and factoring facilities. The total value of invoice financing in the UK as of the end of March 2015 was £18.9 billion, representing a 6% increase over the prior year. There were 43,800 customers in the market as of 31 March 2015, mainly small businesses with revenues below £5 million (Source: ABFA, March 2015).

The most common types of invoice finance are: (i) invoice discounting, which involves lending against unpaid invoices, typically at an agreed percentage of their total value, with the lender not directly interacting with the business's customers; and (ii) factoring, which involves the lender managing the credit control and interacting with the business's customers while retaining a percentage of the value in return.

9.2 Competitive Landscape

The market participants include larger banks, as well as some specialist providers such as Bibby Financial and Shawbrook, which are more focused on regional SME customers. The four largest banks (Barclays, RBS, LBG, HSBC) accounted for 80% of the value of outstanding loans in 2014 (Source: CMA, Retail Banking Investigation, October 2015).

PART IV:
INFORMATION ON METRO BANK

Investors should read this Part IV "*Information on Metro Bank" in conjunction with the more detailed information contained in this Private Placement Memorandum, including the financial and other information in Part VII:* "*Historical Financial Information*" and *Part VIII:* "*Operating and Financial Review*".

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

Overview

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

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 40 stores (not 'branches') across London and the surrounding commuter areas, with approximately 655,000 customer accounts, £5,108 million in deposits from customers and £3,549 million of gross loans and advances to customers as of 31 December 2015. Driven by and reflective of its customer service-led model and culture, Metro Bank's "stores" are open seven days a week, early morning until late. Metro Bank also supports 24/7 telephony, digital and mobile banking, and offers simple products and fair pricing.

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

A ATTEND to every detail

M MAKE every wrong right

A ASK if you're not sure – *Bump it up*!

Z ZEST is contagious – *Share it*!

E EXCEED expectations

I INSPIRE colleagues to create *FANS*!

N NURTURE colleagues so they grow

G GAME CHANGE because this is a Revolution

In order to cultivate a culture that supports these values Metro Bank seeks first to hire "colleagues" (not "staff") with the right attitude and train them with the appropriate skills to AMAZE its customers. These colleagues attend Metro Bank University throughout their careers to learn and enhance the skills necessary to provide a customer service experience that matches or exceeds that of best-in-class specialist retailers.

Metro Bank's superior customer experience is supported by a scalable, innovative and flexible end-to-end technology infrastructure that equips Metro Bank's colleagues to focus on creating an "AMAZE(ING)" customer experience. For example, the speed at which Metro Bank opens accounts is believed to be industry-leading by the Directors: following a robust ‘Know Your Customer’ process (which includes anti-money laundering, anti-fraud and, where appropriate, credit checks), Metro Bank was able to open 77% of accounts for new-to-bank customers in its retail segment (the “**Retail Segment**”) within 15 minutes in 2015, and a further 10% within 20 minutes. In addition, Metro Bank's emphasis on delivery at the point-of-sale means that these new-to-bank customers leave a Metro Bank store with a fully functioning current account (including access to telephony, internet and mobile banking, with customers assisted in downloading the Metro Bank mobile app in store at the time of application) and an activated contactless debit card printed in store, for which they set their own pin number, thus requiring no repeat store visits or mailings to complete their account opening process. Metro Bank’s existing customers are also typically able to open additional savings accounts in four to six clicks (depending on the product) on Metro Bank’s website. Furthermore, customers have 24/7 access to a London-based contact centre staffed by Metro Bank colleagues that utilises real-time, skill-based routing for customer calls, removing the need for an interactive voice response (“**IVR**”) system, simplifying the call experience and saving time for customers by quickly directing their call to a colleague well qualified to deal with their request.

Metro Bank has also invested heavily in its “back office” infrastructure, enhancing operational performance and resilience, including by implementing straight through processing and single customer view functionalities, leading cybersecurity controls, including web application firewalls to protect its external websites, malware detection tools to protect data, and a 24/7 managed security service to monitor its IT infrastructure.

Adding to its offering, Metro Bank entered into two new partnerships in 2015 with other brands that share Metro Bank’s zeal for great service: an innovative partnership with peer-to-peer lender Zopa that allows Metro Bank to originate loans through their platform and an exclusive co-branded banking partnership with St. James’s Place Wealth Management plc (“**St. James’s Place**”).

As of 31 December 2015, Metro Bank had total assets and liabilities of £6,151 million and £5,741 million, respectively.

History and development

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

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

- March 2010: Initial seed capital of £75 million raised through a private placement of Shares.
- March 2010: FSA grants Metro Bank a full-service banking licence.
- July 2010: Metro Bank launches its first store in Holborn in London.
- December 2010: Further capital of £51.8 million raised through a private placement of Shares to further accelerate store roll-out.
- Fourth quarter 2011: Metro Bank opens its tenth store.
- June 2012: Further private placement of Shares of £126.5 million to support growth.
- Fourth quarter 2012: Metro Bank’s deposit balances grow to £500 million and the number of customer accounts grows to 100,000.

- Third quarter 2013: Metro Bank's deposit balances grow to £1 billion, its lending balances grow to £500 million and the number of its stores grows to 20.
- November 2013: Metro Bank is named "Bank of the Year" at the City AM Awards 2013 in London.
- December 2013: £387.5 million private placement of Shares (including a £100 million follow-on offer in January 2014) to support further growth in risk assets and store network.
- Second quarter 2014: Metro Bank's deposit balances grow to £2 billion and its lending balances grow to £1 billion.
- Third quarter 2014: The number of Metro Bank's customer accounts grows to 400,000.
- Fourth quarter 2014: The number of Metro Bank's stores grows to 30.
- First quarter 2015: Metro Bank's deposit balances grow to £3 billion.
- Second quarter 2015: Metro Bank's lending balances grow to £2 billion.
- Third quarter 2015: The number of Metro Bank's customer accounts grows to 600,000.
- Third quarter 2015: Metro Bank's deposit balances grow to £4 billion, and Metro Bank is named top Gold winner in Fairer Finance's league table of bank accounts.
- Third quarter 2015: Metro Bank purchased a first charge prime residential mortgage loan portfolio for consideration of £344 million.
- Fourth quarter 2015: Metro Bank's deposit balances grow to £5 billion; its lending balances grow to £3.5 billion; and the number of its stores grows to 40.
- Fourth quarter 2015: Metro Bank is awarded a Microsoft "Visionary" award for innovative use of technology.

Strengths

Metro Bank is the UK's first new High Street bank offering a full service transactional platform focused on retail and commercial customers to have opened in the UK in the last 100 years. Adopting a growth retailing approach to banking, Metro Bank creates FANS through the tangible delivery of simple and transparent banking products. Metro Bank has built a completely new trusted consumer brand in the past five years, with the platform, capital and management in place to continue to expand its share of the UK banking market.

A disruptive growth retailing approach to banking; creating FANS through an AMAZE(ING) culture and fanatical execution

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

Metro Bank's pervasive customer-centric culture enables it to provide a differentiated service and convenience, which the Directors believe is comparable to that of some of the most admired brands in retail. A second colleague must be consulted before saying "no" to a customer (known as the "one to say yes, two to say no" rule), and high levels of engagement are encouraged to have a "surprise and delight" impact on customers. This is supported by the provision of services that are simple, and a strong focus on customer convenience. For example, legacy bank rules that restrict or frustrate customers have been replaced by unique policies such as "early until late" store opening hours, 362 days a year. Metro Bank is committed to providing face-to-face execution for almost twice as many hours throughout the year as incumbent banks, with services through its digital channels and contact centre offered 24/7. By championing the needs of customers, Metro Bank seeks to create "FANS for life", building long-term relationships and brand loyalty, having achieved 77% brand recognition in 2015 across London, with minimal annual external advertising expenditure.

Metro Bank's customer service is delivered by a highly motivated and engaged team of colleagues. This is reflected in the results of an internal survey, in which Metro Bank achieved high colleague engagement in 2015 for the quality of its training, review process, opportunities for promotion and appropriateness of salary. Metro Bank's customer-centric culture pervades its recruitment and training policies, and Metro Bank is committed to hiring colleagues with the right attitude as a priority and then training for skills. Metro Bank safeguards its culture by ensuring every colleague joining the Metro Bank team is enrolled in the same two-day induction training programme, "Visions", followed by up to nine months of initial customer engagement training for front-line roles, while promotions follow a '1-in-1-up' approach. Through regular AMAZE(ING) reviews, based on customer service rather than sales targets (store colleagues do not have sales targets), internal and professional training qualifications and a share-option scheme, colleagues are trained as custodians of the Metro Bank culture and business. Accordingly, Metro Bank colleagues are highly motivated to deliver superior customer service.

By successfully transforming customers into FANS, Metro Bank benefits from a powerful organic marketing engine. By fulfilling its promise of distinguished customer service and simple, transparent, value-for-money products, Metro Bank's brand and reputation has grown through recommendations and public recognition from industry, consumer advocacy and other community groups. For example, Metro Bank remains the only financial services brand to receive the Mumsnets Gold award (in 2012, 2013 and 2014) for resourceful and creative family friendly initiatives for customers and colleagues. In 2015, Metro Bank was also voted number one in customer service in a survey conducted by Fairer Finance. In addition, Metro Bank has also attracted international recognition for its commitment to providing its customers with unparalleled levels of service and convenience, winning the Best Branch Strategy award from the Retail Banker International for 2015.

Using its stores as a key part of its tangible gateway to customer engagement, Metro Bank has further enhanced its brand recognition through active engagement with the local community. Metro Bank supported more than 3,000 community events during 2015 and delivered its Money Zone financial education course, recognised as meeting UK national curriculum standards by the Personal Finance Education Group, to an estimated 21,000 children during 2015. Metro Bank also received the Technology Innovation Enterprise Award by Microsoft as part of the 2014 Microsoft Dynamics Customer Excellence Awards program, as well as a Microsoft "Visionary" award for innovative use of technology in 2015. Through engagement with customers in-store and in the local community, Metro Bank has achieved an average Net Promoter Score (a recognised market-standard marketing benchmark that gauges customer loyalty) of 80% throughout 2015, improving from 75% in 2014. With 83.9% of customers surveyed in 2015 saying they would recommend Metro Bank's services to a friend, Metro Bank's distinct culture, focus on customer service and growing brand have driven customer accounts growth period-on-period.

Highly differentiated and integrated multi-channel customer proposition providing tangible and innovative delivery of retail and commercial banking services at point-of-sale

Metro Bank provides a differentiated level of tangible convenience for customers through the increasingly seamless interaction between in-store, mobile, online and telephonic banking services. By providing its customers with increasingly seamless access to their banking services across channels, Metro Bank puts control with the customer to use the channel of their choice at a time of their convenience, at any point in the customer journey. Metro Bank's colleagues are able to access a "Single Customer View" for all products and services consumed by a given customer, as well as a customer photograph and real-time history of previous interactions across all channels, without having to use multiple systems. Metro Bank utilises a bank-wide Microsoft Dynamics CRM system to ensure that customer tasks move throughout the organisation quickly and seamlessly. As a result, Metro Bank is able to deliver a faster, more informed, and more secure, service to customers without friction across multiple channels and systems.

Store Network

Metro Bank provides the tangible delivery of its customer service proposition through its network of strategically located stores. Modelled on contemporary retail outlets, Metro Bank's stores are situated on selected high-street locations to maximise customer convenience and engagement. Metro Bank's stores are typically larger and more spacious than traditional bank "branches", staffed with well-trained, highly engaged customer-focused colleagues, and have distinguishing high ceilings and vibrant, modern interiors. In addition, Metro Bank's stores are open seven days a week with longer hours than competitors (typically 8am to 8pm, with standard hours across the store network to help ensure dependability for customers). Metro Bank has purposefully designed its stores to create a welcoming environment and provide timely customer service at peak times. Metro Bank's innovative straight through and real time processing allows new and existing customers to open an account and receive a new or replacement card and PIN number (and cheque book, if requested) at the point-of-sale with no need for second day follow-up. With free wireless internet in store, Metro Bank's customers are able to set up their mobile and online banking before leaving the store on the day of opening their account.

Digital Channels - Online and Mobile

Online

Metro Bank provides a wide range of innovative online banking services to customers. Existing customers are able to open additional accounts easily online in four to six clicks (depending on the product), including current accounts, cash accounts, instant access savings accounts, fixed term savings accounts, instant access ISA accounts and overdrafts. In the fourth quarter of 2015, Metro Bank introduced the online savings account opening capability for new-to-bank customers, with current account opening capability to follow in 2016. The online proposition provides a range of additional value-added services featuring innovative, user friendly functionality that meets customer needs. For credit and debit cards, customers can view transactions being processed to help understand their latest balance, cancel a card, order a new card or order a PIN reminder, as well as search transactions by date, category or keyword. Online banking also allows customers to rename accounts with 'nicknames' (for example, "Holiday Fund") which can be used consistently across every channel.

Throughout 2015, Metro Bank invested in propositions for online customer acquisition and product sales. Designed with the support and input of intermediaries, Metro Bank has structured a service that aligns the incentives of customers and intermediaries to retain a mortgage product with Metro Bank. Customers renewing via the "retention portal" benefit from reduced fees and the option of switching up to three months early without incurring an early repayment charge, while intermediaries are able to process a greater volume of applications with the process taking on average less than ten minutes.

Mobile

Mobile banking is a key part of Metro Bank's multi-channel distribution capability, with the number of customers that have activated the mobile application increasing by 148%, from 37.8 thousand in 2014 to 93.8 thousand by 31 December 2015. All customers can access their account information, check balances, make payments and manage cards through a personalised mobile banking application.

Metro Bank continues to invest and upgrade its mobile proposition. For example, in 2014, Metro Bank developed the capability to freeze and unfreeze misplaced cards in real-time. Metro Bank also continues to invest in the integration between its digital platforms. In the third quarter of 2015, Metro Bank started building its new "multi-channel" corporate digital banking platform, aiming to provide consistent design and functionality across desktop, mobile, tablet etc. Starting with the expected launch of its online proposition for Commercial Banking customers in the second quarter of 2016, followed by new mobile applications in the third quarter of 2016 for Retail Segment and Business Banking customers, as well as the expected introduction of Apple Pay functionality in the course of 2016, Metro Bank is committed to provide an increasingly seamless proposition to all customer segments.

Contact Centres

Metro Bank's customer network is supported by contact centres with colleagues, rather than IVR functionality, to provide assistance with banking queries and services. Centres are exclusively located on-shore in the UK, above and behind stores. Metro Bank was commended by Moneywise for contact centre service in 2014. By seamlessly integrating the latest "In-In" technology with its Microsoft Dynamics CRM platform, Metro Bank has established real-time skill-based routing for customer calls. Removing the need for an IVR system, this has enabled automation and optimisation of call allocation, simplifying the experience and saving time for customers.

E-mail and Social Media Customer Interaction

Metro Bank actively monitors social media as a channel for customer engagement using the Microsoft Dynamics Social Engagement tool. For example, Twitter has become the principal channel for some customers to communicate with Metro Bank, and Metro Bank has begun to see an increasing number of regular customers use Twitter. Accordingly, Metro Bank monitors Twitter for both positive remarks on new propositions, such as the reaction to the launch of London's first drive-through bank in the third quarter of 2015, as well as customer complaints. Metro Bank also monitors trends on social media directed at competitors, such as complaints regarding customer service or digital banking applications, to inform Metro Bank's own differentiated customer proposition strategy.

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

Metro Bank is the only new High Street bank offering a full service transactional platform focused on retail and commercial customers, specifically the underserved SME market, to have opened in the last 100 years in the UK. As of 31 December 2015, Metro Bank had a balanced exposure to both segments, with Retail Segment customers accounting for 47% of deposits and 64% of Metro Bank's loan book.

Metro Bank provides simple and transparent products, supported by a differentiated service and convenience-led proposition at point-of-sale across every channel. For example, Metro Bank offers one retail current account product and one cash account product, which can both be opened at point-of-sale end-to-end in-store within fifteen minutes with no day-two processing. The incumbent high-street banks in the UK offer, on average, five different current account products, which can take days or weeks to open. Retail Segment Customers are offered a "Savings Promise" on deposits to ensure customers have access to Metro Bank's best available rate for each account, and a uniform pricing policy that ensures new customers do not receive a more favourable rate than existing customers. The Directors believe that Metro Bank's policy of uniform, transparent and consistent pricing extended across all channels has helped Metro Bank build trust and loyalty with its customers, turning them into FANS.

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

Metro Bank's commercial customers benefit from the same simple and tailored approach. Metro Bank delivers a one-day account opening experience that is complemented by tailored product offerings. SMEs receive support on request from Local Business Managers and industry credit specialists. Simple cash management products act as a gateway aimed at creating long-term customer relationships that allow Metro Bank to fulfil all of a customer's banking needs across a full suite of transactional products, including BCAs, savings accounts, term lending and asset finance. As of 31 December 2015, 64% of Metro Bank's customer deposits were from commercial customers.

Metro Bank strengthens its relationships with SMEs through valuable business partnership agreements. Metro Bank has successfully established partnerships with business service providers such as Xero and KPMG's small business accounting service, to generate a unique platform of services to support the SME ecosystem. Xero provides Metro Bank's customers with the ability to streamline their accounting and banking processes, reconcile their accounts with one click, manage their business data in one place and create smart reports and professional invoices on the move, through a state-of-the-art app. The partnership with KPMG provides small businesses with quick and easy access to expert advice and services such as bookkeeping – significantly reducing the burden presented by 'financial red tape'. Metro Bank also partners with local-area professionals, such as lawyers and accountants, in order to build relationships within communities and provide banking services meeting local needs. The Directors believe that such innovative initiatives differentiate Metro Bank from its peers, helping to build deep customer relationships that will support the growth franchise into the future.

An additional example of Metro Bank's successful partnerships include the deployment of its deposits platform into partnerships with institutions such as Rowanmoor and DP Pensions, which has generated more than £850 million in incremental trust deposits. In addition to deposits, these partnerships have generated additional interest and fee income from overdraft and short-term lending facilities offered to customers of these institutions, which are collateralised by their investment portfolios. Metro Bank has also partnered with peer-to-peer lender Zopa, benefitting from access to its consumer loans platform. While still in its infancy, Metro Bank has deployed approximately £4.4 million of lending per month through their platform since the partnership's first full month of operations in June 2015 (with Metro Bank extending credit to borrowers only if the proposed loan is within Metro Bank's credit risk appetite). The Directors believe that there remains substantial opportunity to utilise established partnerships to further grow the deposit base and extend the breadth of Metro Bank's customer and brand coverage.

High quality, low cost deposit base attracted through a differentiated service-led customer proposition creates a clear funding, cost and liquidity advantage

Through its growth in customer deposits, Metro Bank has built an efficient and high quality funding profile. As of 31 December 2015, Metro Bank had £5,108 million of customer deposits across approximately 655,000 customer accounts. By employing a deposit-driven funding model, Metro Bank derives a material economic benefit through lower than average funding costs and reduced regulatory liquidity requirements compared to other UK deposit-taking businesses. As Metro Bank has grown its customer base across retail and commercial markets, it has increased the percentage of deposits held in stable current accounts, further enhancing these benefits.

Through tangible delivery of superior service and convenience at point-of-sale publicised through customer advocacy, Metro Bank has achieved strong growth in both deposits and current accounts. From 2014 to 2015, deposits have grown 78% from £2.9 billion to £5.1 billion and current accounts have grown 61% from

£0.9 billion to £1.4 billion. Congruent with its customer centric proposition, the interest rates offered by Metro Bank are simple, transparent and consistent across channels. Metro Bank has received industry-wide recognition for its current account proposition, having won Best Current Account for Branch Service (Moneywise, 2014) and the Best Overall Current Account (Moneynet, 2014). In addition, in 2015, Metro Bank won the Savings Champion award for Best Savings Provider for Existing Customers for the third year in a row.

Metro Bank's differentiated proposition has enabled it to reach an average cost of deposits of 82 basis points ("**bps**") across its funding book in 2015, down from 90 bps as of 31 December 2014. By the end of 2020, Metro Bank is targeting NIM (including fee income) of c. 3%, assuming no increase in interest rates.

The Directors believe that Metro Bank also benefits from a scalable operating platform, allowing it to grow its deposit base as it attracts both new customers and more deposits from existing customers at a decreasing cost per deposit. Average deposit growth per store per month grew to £5.3 million in 2015 – up from £4.9 million in 2014, while comparative store deposit growth (a measure of deposit growth using deposit numbers from stores that have been operating for more than a full year) was 69%. The Directors believe the average per store per month deposit growth will continue to rise in the short-term driven by additional investment in new stores, increased access to larger commercial, charity and local government deposits, utilisation of alternative delivery channels (such as the launch of online deposit generation), and the increased network effect. In the medium term, the Directors believe that higher competition in the savings market post-FLS and new entrants to the banking sector will lead to a long term average deposit growth per store per month of c. £5.25 million. If all stores were to achieve the same level of current account funding as they become more established, the Directors would expect Metro Bank to benefit from a lower cost of deposit acquisition over time.

Metro Bank also benefits from reduced liquidity reserve requirements due to the stable nature of its deposit base. Metro Bank has set its risk appetite in the context of the bank's stable deposit business model, with no wholesale funding (except for drawdowns under the FLS), virtually no "hot money" (i.e., funds controlled by investors actively seeking short-term returns and who frequently move funds in search of higher interest yields), and a conservative long-term target loan-to-deposit ratio of 80% (69% as of 31 December 2015). Based on five years of trading data, Metro Bank has been able to statistically demonstrate the stability of its deposit base through a core deposit stability analysis, dividing cohorts of seasoned deposits into "core" balances (the base level of deposits that has never been breached in a representative sample of accounts) and "non-core" balances. Products that exhibit a high core ratio, such as Metro Bank's retail current account at 99% as at 31 December 2015, are expected by the Directors to have a high longevity and be stable and sticky in the event of a liquidity stress. Metro Bank's high quality deposit base reduces the opportunity cost of funding its required liquidity reserve, while maintaining a prudent liquidity position.

Long-term growth supported by highly scalable, best-in-class, IT platform with a "pay-as-you-grow" cost structure and strong capital and liquidity positions

Metro Bank's growth trajectory is underpinned by a service-based approach to IT, utilising a unique 'pay-as-you-grow' cost structure model. Metro Bank's approach to utilising a 'Software as a Service' ("**SaaS**") model minimises the fixed capital investment in systems that will eventually become obsolete over time and be written off. This model enables the scalability and efficiency of Metro Bank's expansion.

The SaaS model has increased Metro Bank's flexibility to customise and easily upgrade its systems to benefit from best-in-class technology solutions from providers including Microsoft, DPR Back Base, Temenos and IBM, increasing customer convenience at a decreased cost. Metro Bank benefits from outsourcing the significant capital expenditure associated with its technology development, working closely with service providers as part of Microsoft's technology adoption program to customise the latest platform products to Metro Bank's needs, such as supporting its "Single Customer View" functionality across all channels.

Similarly, Metro Bank benefits from reducing the time and number of follow-ups required to open customer accounts. As the first bank in the UK to print contactless cards in store, Metro Bank has successfully established straight-through processing of new customer accounts, which is available seven days a week. Providing the ultimate convenience for the busy modern day customer, Metro Bank provides a new card, a customer-created PIN number (and cheque book, if requested) and the installation of online and mobile banking at the point-of-sale with no need for a second day follow-up for Retail Banking and Business Banking customers. 77% of first time Retail Segment customers have their account set up in less than 15 minutes, while for existing customers, setting up an additional account requires just four to six clicks (depending on the product) online. For SMEs, 63% of accounts are opened within 60 minutes, representing a significantly distinguished proposition versus peers. Powered by flexible, easily upgradeable IT, Metro Bank has achieved mutually beneficial propositions of differentiated customer service that is both cost-efficient and scalable.

Metro Bank's innovative cross-channel customer propositions have attracted international recognition from technology industry experts, enhancing Metro Bank's brand and reputation. Metro Bank received the Technology Innovation Enterprise Award by Microsoft as part of the 2014 Microsoft Dynamics Customer Excellence Awards program, recognising its innovative approach to combining the best technology across every channel. In addition, in the fourth quarter of 2015, Metro Bank was awarded a Microsoft "Visionary" award for innovative use of technology. Metro Bank was also described as the third most innovative Fin-Tech company in Europe by Business Insider. Metro Bank has also received economic benefit through recognition from the UK Government, receiving tax relief for its innovation to reflect the investment in the development of improved products and services for customers.

Strong capital position

Metro Bank has maintained a strong capital position with a comfortable buffer to regulatory requirements and headroom for further asset growth. Metro Bank has written-off lending of only £1.9 million of capital over 5 years to date. The high quality of Metro Bank's loan book has also minimised the need to make provisions, with only £6.8 million provisioned for loan losses as of 31 December 2015, supporting Metro Bank's trajectory toward organic capital generation. As of 31 December 2015, Metro Bank had a Common Equity Tier 1 ratio of 13.3% and a leverage ratio of 5%. Assuming the proceeds of the Offers had been received as of 31 December 2015, Metro Bank's Common Equity Tier 1 ratio and leverage ratio would have been 38% and c. 13%, respectively. As Metro Bank continues to move towards profitability, the robust capital position has been supported by successful rounds of equity investment from a large number of high-quality investors in 2012 and 2014.

Stand-out growth trajectory to date, with a tremendous market opportunity for continued gains in market share through delivery of a differentiated and disruptive model

Delivering Metro Bank's AMAZE(ING) culture through its multi-channel network, Metro Bank has benefited from a strong track record of growth of customer accounts, deposits and organically originated residential mortgage loans, representing a disruptive force in the UK banking market.

As Metro Bank has expanded its multi-channel platform, driven primarily through its 40 stores, it has acquired approximately 655,000 customer accounts as of 31 December 2015. Metro Bank's increasing pace of store expansion, with 9 in 2015, is matched by increasing rates of customer account growth, with 54,000 net customer accounts added in the fourth quarter of 2015. Metro Bank has also grown account balances, with average Retail Segment account balances as of 31 December 2015 of £4,162 compared to £2,724 in 2013 and an increase of 49,516 accounts to 73,559 Commercial Segment accounts over the same time period. As a result, Metro Bank had £5,108 million customer deposits as of 31 December 2015, representing 78% growth year-on-year and a record quarterly growth rate of 16%.

As of 31 December 2015, Metro Bank had achieved a total deposit market share of 0.2% of the total £2.1 trillion deposit base in the UK. Deposit growth has been matched by increasing geographic diversity, as Metro Bank has extended its physical network coverage through store expansion into further conurbations surrounding Greater London. To date, Metro Bank has been geographically focused in London and the surrounding commuter areas, having identified the area as having the greatest potential market opportunity. As of 1 November 2013 (the most recent date for which relevant Office for National Statistics data is available), London and the South East of England comprised approximately £1 trillion of deposits, representing the highest customer deposit per capita in the UK, and 27% of the UK's 60 million residents resided there as of the same date.

Free from the risks associated with volatile interbank wholesale funding, customer deposit growth has funded £3,549 million of gross loans and advances to customers as of 31 December 2015. The Directors believe that Metro Bank had an approximately 0.4% market share in residential mortgages in the UK as of 31 December 2015. Of Metro Bank's total asset base as of 31 December 2015, 91% was organically originated through Metro Bank's full service retail and commercial transactional banking platform, with only one acquisition to date (the acquisition of SME Invoice Finance Limited and its subsidiaries, which specialise in invoice discounting and factoring and asset finance ("**SME Invoice Finance**") and the purchase of a first charge prime residential mortgage loan portfolio for consideration of £344 million).

Metro Bank's stand-out track record in asset growth has been matched by market-leading asset quality. Rapid asset accumulation has been achieved while maintaining strict risk thresholds. As of 31 December 2015, Metro Bank had an immaterial number of non-performing residential mortgage and commercial loans. The average LTV of Metro Bank's organic residential mortgages (i.e., excluding those acquired in the purchase of the £344 million first charge prime residential mortgage loan portfolio in 2015) has risen from 61.3% in 2014 to 62.7% in 2015. In Metro Bank's Commercial Segment, the average DTV Ratio of Metro Bank's commercial loan book has been stable and below 60% over the same period. Metro Bank's low average cost of risk to date has reflected Metro Bank's rigorous credit focus, supporting its trajectory to profitability.

The Directors believe there remains a significant opportunity for further growth in existing and new markets. With an established brand and growing network of customers in Greater London, the Directors expect to be able to fund asset expansion through Metro Bank's growing share of the Greater London deposit market. Growth is also expected to be boosted through the launch of the online customer acquisition capability, starting with savings accounts in the fourth quarter of 2015 followed by online current account acquisition in 2016. Until the fourth quarter of 2015, Metro Bank's growth in new customer accounts had been achieved solely through in-store account opening, with only existing customers able to open accounts online. Attracting just a small percentage of existing online accounts from other banks in the UK would represent a sizeable increase to Metro Bank's customer base. Supporting the tangible delivery of its multi-channel customer engagement proposition, Metro Bank expects to also continue to further its geographic expansion along commuter lines out of London to cover the UK market more widely, targeting approximately 110 stores by the end of 2020.

Best in class leadership and management with track record of proven success

Metro Bank has assembled a Board of Directors and Senior Management team with high-quality experience of leadership and operational positions in the banking and retail sectors.

Metro Bank's Chairman and founder, Vernon W. Hill, II, has a proven track record of launching and successfully growing a bank, having founded Commerce Bank in 1973 in the USA. Between 2001 and 2006, Commerce Bank achieved an annual average growth rate of 30% for deposits and 28% for loans (net), growing its number of stores from 184 to 428 during this period. Vernon has been recognised in Forbes' elite 20-20-20 club, a list of CEOs who have served for 20 years at the helm of a public company and have delivered at least a 20% annual return-on-equity for shareholders since their respective companies went public. Vernon sold Commerce Bank to TD Bank Financial in 2007 for $8.5 billion, before founding Metro Bank in the UK in 2010. Based on an economic model of maximising the number of deposits per branch from a fixed central cost base and a customer-centric culture focused on exceeding customer expectations, Commerce Bank established its brand as "America's most convenient bank". Metro Bank's business model is based on the proven model of Commerce Bank, with the same founder on board to deliver success.

Metro Bank's founding Chief Executive Officer ("**CEO**"), Craig Donaldson, has significant experience in the UK banking sector, with previous roles including Managing Director of Retail Products and Direct Channels at RBS, as well as senior roles with Barclays and HBOS. Aided by a deep understanding of the operations of a number of the largest incumbent banks, Craig is committed to providing a differentiated customer proposition and embedding Metro Bank's unique culture.

Metro Bank's Chief Financial Officer ("**CFO**"), Mike Brierley, is a chartered accountant with previous roles in the banking industry, including various senior finance and risk roles including CFO and Chief Risk Officer of Capital One Bank (Europe) and CFO for Royal Trust Bank, as well as Director of Business Risk at Barclaycard.

With a wealth of experience in UK banking, Metro Bank's Executive Directors and Senior Management have complementary experience and a wealth of industry knowledge, making them well equipped to drive Metro Bank's retailing approach to banking. The Executive Directors have an average of 27 years of industry experience and Senior Management have an average of 22 years of industry experience.

Strategy

Metro Bank is the only new High Street bank offering a full service transactional platform focused on retail and commercial customers to have opened in the UK in the last 100 years. Metro Bank intends to continue to take a retail approach to banking to create FANS through the tangible delivery of simple and transparent banking products and attract deposits below market interest rates to fund profitable scale expansion.

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

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

Store strategy: Metro Bank intends to continue providing real-time straight through processing to customers at the point-of-sale via its network of stores. Metro Bank is committed to continuing to offer the fastest and most convenient account opening experience in the UK market through all channels, with no day-two processing. Metro Bank aims to be able to "do everything" for customers, both existing customers and new-to-bank customers, in store, and intends to continue expanding the catchment area of its store network through strategic expansion around London, the South East of England and further west along the key commuter lines, delivering superior service and convenience to an increasing number of FANS.

Digital strategy: Metro Bank intends to continue to increase its digital capability, in mobile, tablets and online services, to achieve a seamless customer journey across channels, and give customers easy access to multiple products such as mobile wallets, as well as tools that save time and improve transparency, to make customers' lives easier. By enhancing mobile capabilities, Metro Bank aims to allow its customers to simplify their customer experience, providing them with the ability to customise account names and freeze and unfreeze account cards at will, for example after losing or misplacing debit or credit cards. With an active social media presence and a new public website, Metro Bank is investing to ensure that the digital engagement proposition is as distinctive and differentiating as the customer service received in stores. In the fourth quarter of 2015, Metro Bank launched the ability for new customers to open savings accounts online. This will be followed by the launch of online current account opening in 2016.

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

Metro Bank also uses business partnership agreements, such as those with Xero and KPMG, to generate a unique platform of services to support the SME ecosystem. Metro Bank intends to continue to expand its range of partnership agreements to further differentiate its customer proposition for its SME customers and create profitable long-term relationships with growing businesses of the future.

Mortgage strategy: Metro Bank intends to continue to utilise both direct and intermediary origination channels to grow its residential mortgage portfolio. Metro Bank also aims to maintain an efficient balance between manual underwriting for residential mortgages that account for individual customer circumstances, and automated underwriting that enables greater scalability as the business grows. Of the residential mortgages organically originated in 2015, more than 20% were directly originated by Metro Bank through its stores and Private Banking, evidencing Metro Bank's commitment to building strong customer relationships, enhancing retention rates. Metro Bank's recent launch of an online mortgage renewal platform is expected to enhance retention rates for intermediary and directly originated mortgages by aligning the incentives of customers and intermediaries to retain a mortgage product with the Bank.

Foster an AMAZE(ING) culture of fanatical execution through colleague engagement

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

Customer engagement: "Revolutionising" the UK banking landscape, Metro Bank aims to provide a superior customer proposition designed to drive customer engagement and build long-term relationships. Metro Bank intends to drive increased customer engagement through differentiated customer service and convenience, the delivery of increasingly seamless distribution capabilities across all channels and continued offering of simple, fair and transparent products. As Metro Bank continues to expand its presence across all channels, the Directors believe that its brand awareness will continue to improve, from a strong position of 77% in London, to support increased customer acquisition.

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

Transform deep customer relationships into profitable balance sheet growth

Low cost funding model: As a deposit-driven institution, the Directors recognise the importance of acquiring and retaining customers, and their deposits, as a central component of the bank's profitability. Metro Bank intends to continue to deliver a customer service-led proposition for growing FAN numbers and, by association, deposit balances. The Directors expect funding costs to continue to benefit from this strategy as customers place significant value on service and convenience. As a 100% deposit funded institution (except for drawdowns under the FLS), Metro Bank has maintained a conservative loan to deposit ratio over recent years and expects to increase the ratio, up to approximately 80%, to support margin expansion.

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

Customer-centric underwriting processes: Metro Bank utilises its deep customer relationship to inform its risk assessment. For example, Metro Bank has established "three lines of credit defence" for Commercial Segment lending, comprising a relationship manager, credit partner and credit assurance (audit). Metro Bank's differentiated approach means that credit partners will often meet the borrower in person along with the relationship manager to assess more fully the individual customer circumstances, before deciding whether to recommend the credit for approval. This approach enables a more granular underwriting process, improving the quality of the loan book. As of 31 December 2015, Metro Bank had an immaterial number of non-performing residential mortgages and commercial loans. The in-person contact with the credit partner also provides a personalised service to the customer improving customer satisfaction. Metro Bank intends to continue deploying the "Credit Partner Model" as the business expands.

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

Continued scalable expansion in current and new markets

Scalable IT platform: Metro Bank employs a SaaS model, paying an upfront licensing fee for best-in-class platforms and technology components with additional payments linked to usage per colleague. This enables Metro Bank to implement its high growth ambitions without having to invest significantly in systems. Metro Bank aims to achieve cost-efficient growth by further leveraging this scalable IT platform.

Geographic expansion: Metro Bank intends to access greater customer numbers through its multi-channel customer engagement capabilities. At the core of its growth strategy is the expansion of the store network, mainly in commuter areas outside of London. With 40 stores as of the date of this Private Placement Memorandum, Metro Bank is targeting approximately 110 stores by the end of 2020. Metro Bank intends to expand the network "one store at a time". This prudent approach ensures Metro Bank invests only in the best sites that fulfil all of its strict internal criteria, being in visible and high traffic locations with sufficient space to install Metro Bank's distinct store design, generating significant growth in customer numbers without needing multiple stores in the same area. Metro Bank also employs an experienced "store delivery" team to ensure the store delivers Metro Bank's high standard of customer service from day 1, before handing over the store to the new store management. As of 31 December 2015, the Directors estimate that Metro Bank's share of deposits in the UK was 0.2% of the total £2.1 trillion deposit base in the UK, highlighting the significant growth opportunity in this market.

Going forward, Metro Bank aims to supplement its store growth further through additional channels, including online, mobile and intermediaries, presenting national growth opportunities. Since launching new customer account opening for savings accounts in the fourth quarter of 2015, Metro Bank has already acquired 3,823 customers outside Greater London. Metro Bank is considering physical expansion outside of Greater London, including the assessment of other super conurbations in the UK, including Bristol and Hampshire.

New product expansion: Metro Bank, from time to time, assesses growth opportunities beyond those identified in its strategic plan, including among others, expanding into new complementary products. In 2013, Metro Bank acquired an asset and invoice discounting finance business providing important capabilities for its commercial franchise. Metro Bank will continue to consider potential acquisition opportunities of businesses, portfolios and teams as appropriate.

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

Metro Bank aims to continue to achieve market-leading growth in income and deposits with increasing cost efficiency to enhance returns to Shareholders. By providing tangible sites of customer engagement in convenient locations, supported by multi-channel capabilities that enable tangible delivery at the point-of-sale, Metro Bank has been able to achieve revenue per square foot in its stores comparable to leading retail brands such as Apple. To maximise the profitability of this model, Metro Bank intends to utilise its scalable IT platform and innovative customer propositions to enable cost-efficient growth across all channels, while maintaining a granular focus on store-level profitability and customer satisfaction.

Metro Bank intends to complement deposit growth through an expanding store network, with increasing acquisition of deposits through the online channel from both existing and new-to-bank customers. Metro Bank's scalable SaaS IT model supports this cost-effective growth by allowing it to service additional customer accounts, with only marginal increases in costs.

By the end of 2020, Metro Bank is targeting a return-on-equity of c. 18%, and a cost-to-income ratio of approximately 60% (in both cases assuming no increases in base interest rates). Metro Bank has minimised the operating cost per deposit of its store network through innovative customer propositions. In addition, Metro Bank offers safe deposit boxes for annual or monthly fees in all stores, which can be reserved in-store or online. Metro Bank covers a significant proportion of its store operating costs from safe deposit box income (an average of 80% of rental costs in stores in operation for at least 12 months, prior to any income from lending or account-related activities). As Metro Bank continues to expand its store network from Central London, the Directors expect safe deposit boxes to cover an increasing percentage of store rental costs.

Operating structure

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

Metro Bank provides simple and transparent mass-market deposit and lending products (consciously and strategically avoiding more complicated products and services that would detract from its culture and strengths and hence slow its growth), including current and savings accounts, retail and commercial mortgages, retail and commercial loans, overdrafts and credit cards. Metro Bank also uses its Private Banking business line to provide high net worth customers with the same range of simple banking products supported by a more personalised service model and access to a dedicated private banker. In addition to a strong Retail Segment offering, Metro Bank's Commercial Segment customers are offered a growing range of services to complement a relationship-driven offering, including invoice and asset finance and point-of-sale merchant services.

As of 31 December 2015, Metro Bank had 581,452 Retail Segment customer accounts and 73,559 Commercial Segment customer accounts, and deposits from customers of £5.1 billion, of which 47% and 53% was attributable to Retail Segment and Commercial Segment customers, respectively. As of the same date, it had loans and advances to customers of £3.5 billion, of which 36% and 64% was attributable to Commercial Segment and Retail Segment customers, respectively.

Culture and colleagues

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

The Directors believe that Metro Bank's growth has allowed it to offer its colleagues more career and promotion opportunities than larger competitors. For example, Metro Bank historically has promoted approximately 20-30% of its eligible colleagues each year. Metro Bank also provides a wide range of in-house and online training courses through 'Metro Bank University', which is designed to help colleagues learn new and enhance existing skills. Metro Bank University offers more than 70 classroom-based courses and employs more than 20 instructors as faculty.

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

Based on an internal survey conducted by Metro Bank in May 2015, the "Voice of the Colleague", 88% of Metro Bank's colleagues would recommend it as an employer to their friends and family.

Customer engagement and fulfilment

Metro Bank has historically avoided the use (and associated high costs) of traditional bank marketing channels, such as radio, print and television advertising, as these outlets are not aligned with the strategic importance it places on its tangible engagement with the communities in which it is based. Rather, Metro Bank focuses on the use of its direct distribution channels, comprising its highly visible, high-specification store environments, mobile and internet offerings, and local contact centres, together with its unique customer service proposition, to ensure that its customers become FANS of the bank, who then spread the word to their friends, family and business colleagues. Metro Bank also seeks to leverage the strength of its brand and the strategic location of its stores to become part of local communities. For example, through its store network, Metro Bank has worked with an estimated 21,000 children to promote financial education through its UK Key Stage 2 "Money Zone" programme in 2015 alone. In addition, Metro Bank is active in supporting charities, having participated in more than 3,000 charity and community events in 2015. Metro Bank also maintains an active social media presence, and it seeks to provide substantive replies to questions and comments submitted by customers on platforms such as Twitter.

In 2015, Metro Bank's Net Promoter Score, a recognised market-standard marketing benchmark that gauges customer loyalty, was 80%, with 83.9% of respondents designated as "promoters" of the Metro Bank brand, 12.3% as passive toward the brand and only 3.8% as "detractors" of the brand. The Directors believe that these scores are industry-leading among UK banking peers.

Stores

Metro Bank's store footprint has been, and continues to be, built organically through the opening of new stores placed in strategically selected prime commuter locations to ensure that Metro Bank's operating model is fully aligned with its customer proposition. Metro Bank seeks to open high-visibility (typically with large glass storefronts and designed in Metro Bank's recognisable red and blue colours), high-specification stores in prime locations where people live, work and play to achieve an interconnected "network effect" (i.e., an effect through which the visibility and brand awareness of each store enhances and complements that of other stores).

Consistent with its emphasis on retail-style customer service and tangible delivery, Metro Bank's stores are open seven days a week with longer hours than competitors (typically 8am to 8pm, with standard hours across the store network to help ensure dependability for customers), which the Directors believe resonates well with busy London commuters and the businesses that serve them. To promote an inviting environment, Metro Bank's stores also feature free coin counting services (through the "Magic Money" machine), pens and sweets, and are child and pet-friendly.

Metro Bank's first store opened in Holborn, London on 29 July 2010, and as of 31 December 2015, Metro Bank operated 40 stores, with a target to operate approximately 110 stores by the end of 2020. Store openings are highly publicised, and Metro Bank organises activities, games, prizes and events during store openings to attract customers and familiarise them with the Metro Bank brand and AMAZE(ING) values. To maintain cultural and operational continuity, when possible, Metro Bank seeks to staff new stores with a core of existing colleagues relocated from other stores.

Metro Bank generally targets new stores making a positive contribution to Metro Bank's net income within 24 months due to the strong net deposit growth per month being over £5.25 million throughout the planning period. Metro Bank manages the profitability (i.e., positive contribution before allocation of central overheads) for each store individually, with the store management teams accountable for their profit and loss. This approach provides Metro Bank with a number of benefits. For example, it allows a better understanding of the key drivers of profitability in each store and how these develop over time. In addition, Metro Bank is better equipped to assess market share taken by each store and assess the feasibility of additional growth. The approach also allows Metro Bank to draw lessons from experiences in one store and apply them to other stores.

Metro Bank leases all but two of its stores, with typical lease terms at commencement of 25 years.

Digital channels – online and mobile

Metro Bank enables its customers to access its products and services through a modern web-based and mobile banking interface. Significantly, in the fourth quarter of 2015, Metro Bank began offering new-to-bank savings account applications online, which the Directors believe will position it well for significant customer growth, given the historical customer and deposit growth rates achieved solely through Metro Bank's in-store applications previously.

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

In addition, in 2014, Metro Bank launched its mobile banking application to Retail Segment customers and extended its reach to Business Banking customers in 2015, allowing both groups to access their accounts through a variety of IOS, Android and Microsoft mobile operating systems. As of 31 December 2015, Metro Bank's online banking and mobile banking were accessed by approximately 205,900 and 118,600 customers, respectively. Metro Bank offers free wireless internet connection in all of its stores, thus providing customers with the option to download Metro Bank's mobile app in-store while opening an account. All of Metro Bank's customers benefit from a variety of innovative online and mobile features, such as the ability to customise account names and freeze and unfreeze cards at will, for example after losing debit or credit cards.

Telephony

Metro Bank provides a full-service telephone banking capability with four contact centres located around London, operating 24 hours a day and seven days a week to ensure consistency of performance and functionality. Metro Bank upgraded its telephony platform in 2015 to provide enhanced customer responsiveness and usability. For example, Metro Bank's contact centres use real-time, skill-based routing for customer calls, removing the need for an IVR system, simplifying the call experience and saving time for customers by quickly directing their call to a colleague well qualified to deal with their request. Metro Bank contact centre colleagues are also able to view photographs of the customer who has called, as well as their entire account status, recent interactions with Metro Bank and account history through Metro Bank's single customer view functionalities. As of 31 December 2015, Metro Bank's contact centres employed 210 colleagues (with additional call overflow support during particularly busy periods by a third party), who handled 1,159,559 calls in 2015.

Retail Segment

Metro Bank's Retail Segment includes its Personal Banking and Private Banking business lines. Metro Bank does not target a particular retail customer segment or profile and instead seeks to attract the business of mass market retail customers. Within Personal Banking, Metro Bank seeks to provide a simple, transparent and easy-to-understand product set to its customers, together with excellent customer service. In 2015, Metro Bank opened 77% of new-to-bank Personal Banking accounts within 15 minutes, and a further 10% within 20 minutes, including providing full online account access, contactless debit card functionality (and cheque book, if requested), an offering unmatched by UK bank competitors. In addition, existing customers are typically able to open additional accounts in four to six clicks (depending on the product) through Metro Bank's website.

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

Personal Banking

Current accounts

As a deposit-driven bank, Metro Bank views retail current accounts as the heart of its product offering, providing Metro Bank with loyal customers and a source of resilient, low-cost and stable funding (relative to wholesale funding). As of 31 December 2015, Metro Bank held £465 million in retail current accounts.

Metro Bank's current accounts are available in GBP for Personal Banking customers, come with contactless MasterCard debit cards standard, are non-interest bearing and offer free cash withdrawals and card transactions in Europe. In addition, they have access to direct debit, standing order and direct payment features and can be supplemented with overdrafts and cheques. Metro Bank's more basic personal banking account, the cash account (typically for those with limited income or without an extensive credit history), offers customers basic banking day-to-day needs, providing contactless MasterCard debit cards and monthly statements. Metro Bank also offers the "Current Account Switch Service" (using the UK current account switch service system) that helps customers switch their current accounts from their existing bank to Metro Bank within seven days, including by transferring all outgoing payments (e.g., direct debits, standing orders, etc.) and redirecting incoming payments (for a period of 36 months), as well as typically matching overdraft limits from customers' previous current accounts. Historically, Metro Bank customers have been able to open current accounts in store only; however, during 2015, existing Metro Bank customers became able to open current accounts online as well.

Savings accounts

Many Personal Banking customers seek outlets for their deposits that will provide a higher rate of return than those provided by current accounts. Metro Bank offers a number of GBP-denominated savings account choices to Personal Banking customers to meet their various needs. While many competitor banks offer higher temporary "teaser" interest rates for new customers, cutting existing customers' rates at their expense, Metro Bank offers a "savings promise" that customers will have access to Metro Bank's "best rate available" to ensure that new customers will not receive a more favourable rate than existing customers. Savings accounts typically provide either fixed or variable interest rates (with variable interest rates changing at the discretion of Metro Bank, but often moving in response to changes in the Bank of England base rate) and are classified as either instant access, from which customers can withdraw their deposits at any time, or term deposits, from which customers can only withdraw deposits without penalty at the end of the term. In addition, Metro Bank offers both instant access and fixed rate ISAs, savings accounts that qualify for favourable tax status in the UK. Historically, Metro Bank customers have been able to open savings accounts in store only; however, during 2015, existing Metro Bank customers became able to open savings accounts online as well.

Residential mortgages

Metro Bank offers a series of mortgage products to Personal Banking customers. As of 31 December 2015, Metro Bank had total residential mortgage assets of £2,156 billion, and during the year ended 31 December 2015, Metro Bank's gross new residential mortgage lending was £1,025 million and net repayments were £99 million. As of 31 December 2015, Metro Bank's residential mortgage assets had an average DTV Ratio of 56%. As of the same date, the average residential mortgage held by Metro Bank was £374,000.

Consistent with its overall customer proposition, Metro Bank places significant emphasis on customer service and transparency throughout its residential mortgage process. For example, Metro Bank offers flexibility to customers through its retention process, allowing customers to move to a new mortgage three months before the expiry of their initial period. In addition, Metro Bank also enables customers to repay up to 20% of their mortgage each year without any early repayment charge. In addition, Metro Bank utilises both manual (to better account for a customer's personal circumstances) and automated underwriting, with the mix between the two approaches depending on the size of the mortgage and type of borrower. Borrowers are also provided with a single point of contact throughout the mortgage process, and Metro Bank offers mortgage customers current accounts and contactless debit cards at the same time as their mortgage offer.

Metro Bank's residential mortgage portfolio, consistent with its customer base, is particularly concentrated in London and the South East of England, with these areas representing 61% and 24%, respectively, of the portfolio as of 31 December 2015, with the remainder of mortgages distributed across other areas of the UK (although with the geographic expansion of Metro Bank's store network, and the recent expansion of Metro Bank's intermediary base across the UK, this geographic distribution has changed, and is expected to continue to change, over time). In addition, in 2015, Metro Bank purchased a first charge prime residential mortgage loan portfolio, for consideration of £344 million. The transaction was undertaken to help meet Metro Bank's goal of obtaining a loan-to-deposit ratio of 80% at maturity. The mortgage portfolio is administered through the Pepper Group Limited ("**Pepper**"), the mortgage servicer that administers Metro Bank's other mortgages. As of 31 December 2014, Metro Bank's geographic concentration of mortgages by gross mortgage value was split, with 61% in Greater London, 24% in the South East UK and 15% in other areas.

Metro Bank's residential mortgage portfolio consists of loans secured on properties by way of a first ranking charge on the property to which the mortgage loan relates on terms which allow for the repossession and sale of the property by Metro Bank if the borrower fails to comply with the terms of the loan. For Personal Banking customers, Metro Bank offers both borrower-occupier mortgage lending (where the borrower is occupier of the mortgaged property), with a maximum LTV Ratio of 85%, and buy-to-let lending (where the borrower purchases with the intention to let the mortgaged property), with a maximum LTV Ratio of 75%. For buy-to-let loans, borrowers must typically demonstrate rental coverage for the property in the amount of 125% of the mortgage payment assuming a current stressed interest rate of 5.5%.

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

Metro Bank offers repayment and interest-only residential mortgages. Customers with repayment mortgages pay off both interest and capital, usually through monthly payments, while customers with interest-only mortgages (which are typically limited to loans with a maximum LTV Ratio of 70%) pay off interest only each month. In common with other residential mortgage lenders in the UK, Metro Bank imposes early repayment charges on certain of its residential mortgage products.

In the periods under review, Metro Bank has had very low levels of arrears in its mortgage portfolio. As of 31 December 2015, Metro Bank had £2.1 million in impaired (90 days+ past due) mortgages.

The Directors believe that Metro Bank also possesses a market-leading mortgage customer retention proposition. Metro Bank's mortgage retention portal, launched in September 2015, is designed to allow intermediary brokers and dealers to more quickly and easily help renew their customer's mortgage with Metro Bank. Metro Bank allows customers to change mortgage plans up to three months before the expiry of their mortgage without any early repayment charges, and by leveraging its technical capabilities, Metro Bank typically is able to facilitate mortgage renewals in less than 30 minutes by customers on its online portal. The Directors also believe that its mortgage renewal fees are significantly lower than those of most of its competitors.

Mortgage distribution

Metro Bank self-originates a significant proportion of its residential mortgages, having directly originated over 20% of residential mortgages organically acquired in 2015. The Directors believe that Metro Bank's ability to self-originate a proportion of its residential mortgage portfolio reflects the success of Metro Bank's efforts to develop close relationships with its customers and to provide them with a level of service and responsive product offerings that encourage them to obtain their mortgages through Metro Bank. As Metro Bank grows its direct mortgage network, the Directors believe it will also grow its direct mortgage fulfilment capabilities.

Metro Bank has also grown its residential mortgage portfolio by establishing relationships with a wide range of specialist mortgage intermediaries. Having significantly expanded its intermediary network across the UK in 2014 and 2015, this model is designed to meet the needs of its customers and provide Metro Bank with a scalable platform for future growth.

Unsecured lending

Metro Bank offers a range of unsecured lending products to Personal Banking customers, including unsecured loans, credit cards, overdrafts and professional studies loans. Metro Bank is developing a best-in-class loan application process both online and in-store, and the Directors believe that Metro Bank's customer relationship-focused lending strategy, supported by its automated underwriting credit assessment processes, can help it to significantly grow its unsecured loan portfolio in the short to medium term.

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

Credit cards: Metro Bank offers Metro Bank-branded contactless MasterCard credit cards for Personal Banking customers that provide free card transactions in Europe and no annual fee. As of 31 December 2015, Metro Bank had approximately 13,240 open retail credit card accounts, and Metro Bank's retail credit card portfolio had receivables of £6 million.

Unsecured loans: Metro Bank offers personal unsecured loans to Personal Banking customers that may be used for a variety of reasons such as home improvements, vehicle purchases or consolidating existing debt. Metro Bank endeavours to ensure that its personal unsecured loans are easy to arrange and customers in most cases can receive their money on the same day that they request it. As of 31 December 2015, Metro Bank's unsecured retail lending portfolio was £15 million.

In May 2015, demonstrating Metro Bank's willingness to consider and enter into non-traditional partnership models in the banking market, Metro Bank began a partnership with the UK peer-to-peer loan platform Zopa to lend to customers through their platform (with Metro Bank extending credit to borrowers only if the proposed loan is within Metro Bank's credit risk appetite). Peer-to-peer platforms are digital sites that match lenders to borrowers directly, typically in a more efficient way than traditional banking and with lower fees. Loan sizes range from £1,000 to £25,000, with an average size of £8,000. Borrowers typically use the loan to finance a car purchase, for home improvement, or to consolidate existing debts. As of 31 December 2015, Metro Bank had £28.9 million in outstanding loans on Zopa's platform.

Overdrafts: Metro Bank offers overdrafts to its Personal Banking customers. Overdrafts occur when a customer pays or withdraws money from their current account in excess of their credit balance. As of 31 December 2015, Metro Bank's retail overdraft receivables were £7 million.

Professional studies loans: Metro Bank's professional studies loan, currently available only to students at the University of Law in London, are designed to help students fund their course and living expenses. The loan can be repaid over a five-year period, with the borrower beginning repayment six months after the completion of studies. As of 31 December 2015, Metro Bank's professional studies loan portfolio was £18 million.

Safe deposit boxes

All of Metro Bank's stores offer safe deposit boxes for a monthly or annual fee, with a typical store having 1,400 boxes available. Safe deposit boxes are offered in a variety of sizes and price ranges and allow customers to store documents or valuables in a secure environment, with unlimited access available during store opening hours seven days a week, 362 days a year. As of 31 December 2015, 46% of Metro Bank's safe deposit boxes were utilised. For the more established stores more than 12 months old, 60% of safe deposit boxes were utilised as of the same date. The Directors believe that safe deposit boxes can transform the economics of its stores, particularly in the more established stores, where safe deposit box utilisation rates are typically high. Metro Bank covers a significant proportion of its store operating costs from safe deposit box income (an average of 80% of rental costs in stores in operation for at least 12 months, prior to any income from lending or account-related activities). In 2015, fee income from safe deposit boxes was £5.3 million, which was equivalent to 45% of Metro Bank's total rents from its opened stores.

Private Banking

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

Although Metro Bank does not employ formal criteria in accepting Private Banking clients, customers typically have salaries of at least £250,000 or deposits and/or lending in excess of £1.5 million. As of 31 December 2015, Metro Bank's Private Banking clients represented £303 million, or 5.94%, of Metro Bank's deposits and £468 million, or 13.21%, of its loans.

Metro Bank does not provide wealth or investment management services to its Private Banking clients and instead offers them a range of banking products and services, with an emphasis on flexibility and speed of delivery. In particular, Metro Bank provides bespoke lending products to meet the special needs and circumstances of its Private Banking clients. Metro Bank employs sector specialists who provide tailored banking solutions for private clients with significant commercial interests, sports and entertainment figures, entrepreneurs, high net worth families and professionals and senior executives. Metro Bank continues to plan to invest in additional sectors teams in the short-term. These sector specialists work to take into account individual factors such as cash flow considerations, professional needs and personal timing constraints to craft individual banking solutions for clients. For example, leveraging Metro Bank's manual underwriting functions, sector specialists are able to analyse and understand the irregular income streams of certain customers, such as sports and entertainment stars, to structure lending solutions responsive to, and appropriate for, their financial situations.

In addition, Metro Bank's Private Banking clients are given access to personal account advisers, enhanced deposit rates, free card transactions in Europe and flexible overdraft terms. Private Banking clients are also offered accounts in Euro and U.S. dollars (in addition to GBP), as well as access to jumbo mortgage loans.

Commercial Segment

Metro Bank's Commercial Segment includes its Commercial Banking, Business Banking and Partnership Banking business lines.

Metro Bank's Commercial Banking customers typically fall into one of a number of sectors, including not-for-profits, local authorities, social housing organisations, hotels and leisure companies, franchises and healthcare companies, each of which are individually handled by sector specialists within the bank. Metro Bank offers these customers a wide range of commercial and mortgage lending products, as well as savings and deposits solutions.

Metro Bank's Business Banking customers are varied, but are typically SMEs based in London and the South East of England with a typical turnover of up to £5 million. From business current accounts, overdrafts, card payment solutions and cash management services to expansion funding and lending, Metro Bank aims to help its SME customers at all stages of a business' development, providing them with a local business manager with expertise and familiarity with their business. In addition, Metro Bank has partnered with Acceptcards, the UK's leading independent brokers in merchant services, to provide Commercial Segment customers access to innovative card payment technology.

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

The Directors believe that because of its own entrepreneurial development and corporate culture, Metro Bank is a particularly attractive banking partner for start-up and technology growth companies that seek a professional and trusted bank with a modern, results-oriented approach to service and speedy account opening.

Metro Bank's Partnership Banking is the bank's proposition for financial services intermediaries such as financial advisers, wealth managers, discretionary fund managers and pension companies, providing these entities with a range of services, including portfolio lending, partner loans and specialist pension deposit solutions, which the Directors believe is a key underserved market.

In February 2015, Metro Bank announced a partnership with Xero, an online accounting software specialist. Xero's software provides business customers with the ability to streamline their accounting and banking processes online. Through its partnership, Metro Bank's Business Banking customers using Xero are able to import and categorise their bank statements automatically, saving time by making manual uploads and downloads unnecessary. Metro Bank also announced a partnership with KPMG in September 2015. Metro Bank's customers have access to KPMG's new Small Business Accounting offering which provides unlimited access to a dedicated KPMG accountant which can reduce time spent by business owners on administration. The partnership builds on both KPMG Small Business Accounting's and Metro Bank's existing partnership with Xero.

Deposit accounts

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

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

Metro Bank offers a broad range of deposit accounts for Commercial Banking customers, including fixed term and variable savings accounts, as well as a variety of specialised deposit accounts. For example, Metro Bank offers money market accounts, which require a minimum deposit of £50,000 and provide interest that varies daily (and is paid either daily, weekly, monthly, quarterly, yearly or at maturity) for terms between one month and five years. Metro Bank also offers "100 Day Notice" accounts, which require a minimum £5,000 deposit, and which allow Commercial Banking customers to earn higher interest rates by committing their money for 100 or more days.

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

Lending

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

When creating lending solutions for Commercial Banking customers, Metro Bank provides each borrower with a dedicated local business manager familiar with the customer's business, as well as efficient, manual underwriting of loan applications. Commercial Banking customers have access to Metro Bank's business loans, which can be obtained in amounts greater than £25,000 and are typically repayable in one to 15 years. These business loans, which also can be secured or unsecured, are available with fixed interest rates for periods of up to seven years and with tracker rates for longer terms. Metro Bank utilises its customer-focused "Credit Partner Model" for commercial underwriting, as well as to help ensure that, where possible, both an underwriter and relationship manager have met the applicant prior to the granting of a loan. In addition, Metro Bank provides Commercial Banking lending predominantly on a secured basis, and it is the general policy that personal guarantees are required for commercial loans. Metro Bank also offers overdrafts to Commercial Banking customers, with interest rates set on a customer-by-customer basis. In addition, Commercial Banking customers can access Metro Bank's mortgage products, including its "portfolio buy-to-let" offering, which allows customers to borrow against a portfolio of typically six to 25 properties up to an aggregate LTV Ratio of 75%.

In addition to the business loans typically offered to Commercial Banking customers, Metro Bank offers Business Banking customers "small business loans", which are made in amounts from £2,000 to £25,000, have fixed interest rates, can be both secured and unsecured and are typically offered for a term of one to five years.

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

Asset finance and invoice finance

In 2013, Metro Bank acquired SME Invoice Finance and its subsidiaries, which specialises in invoice discounting and factoring and asset finance. Through the acquisition of this company, which has been rebranded as Metro Bank Invoice and Asset Finance, Metro Bank broadened its offering to Business Banking customers with a focus on the manufacturing, wholesale and transport and distribution markets. Since their acquisition, these portfolios have grown from £53 million to £123 million as of 31 December 2015.

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

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

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

Invoice and asset financing have well-established broker-led markets in the UK, and Metro Bank works with a wide range of intermediaries in both of these businesses. In the year ended 31 December 2015, intermediaries originated 34.2% and 73.3%, respectively, of Metro Bank's business in these areas, with remaining business coming from its own internal channels.

In addition, Metro Bank is considering opportunities to increase cross-sales solutions between asset and invoice finance, as well as private banking solutions.

Partnership Banking

Through its Partnership Banking, one of Metro Bank's fastest-growing business lines, Metro Bank offers specialist banking products for the financial services intermediary market, including portfolio lending, partner loans and specialist pension deposit solutions. Metro Bank has a broad network of partnership relationships, including with leading companies such as St. James's Place, Standard Life, Flemings and Quilter Cheviot.

Through its Partnership Banking business line, Metro Bank accepts specialist cash deposits from pension providers and provides Small Self-Administered Scheme ("**SSAS**") deposit solutions (typically instant access and deposit accounts), as well as customer portfolio lending to various wealth managers. The dedicated pension administration team at Metro Bank, which in recent years has gained customers such as Westerby Trustee Services and Rowanmoor Trustees Limited, comprises experienced banking administrators with expertise in the administration of cash deposits from pension providers and SSAS accounts. The Directors believe that funds held on behalf of pension trustee advisers are characteristically a stable source of funding, and as of 31 December 2015, these funds represented £566 million of Metro Bank's deposits.

Metro Bank also works closely with a range of partners who specialise in company formation, providing it with early access to offer these newly-established companies with business current accounts. Metro Bank also has developed a growing niche in client monies holding accounts for solicitors and other professional services organisations.

Money Management Account

Within Partnership Banking, Metro Bank offers MMAs, which combine current accounts with overdrafts secured against customers' investment portfolios held by their asset management partners, allowing its customers to borrow money against their investments. Available primarily to customers through Metro Bank's Partnership Banking business line (in partnership with asset managers St. James's Place, Quilter Cheviot and Killik & Co), as of 31 December 2015, Metro Bank held a total MMA lending balance of £42.7 million. In April 2015, Metro Bank launched a co-branded MMA with St. James's Place, and it also provides loans for St. James's Place partners.

Information technology

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

Metro Bank's IT infrastructure is crucial to the bank's customer proposition, particularly to its ability to open new customer accounts quickly and seamlessly while simultaneously performing necessary background checks on applicants. Metro Bank has an in-house IT team of approximately 98 colleagues who manage and evolve Metro Bank's systems. Metro Bank uses Temenos software for core banking services and Microsoft for CRM and Marketing (Dynamics), Management Information (PowerBI) and internal communications (Yammer).

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

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

Competition

The table below sets forth a comparison of the product offerings of Metro Bank and certain of its competitors as of November 2015:

	Asset Finance	Invoice Finance	Residential Mortgages: Owner Occupied	Residential Mortgages: Buy to Let	Commercial Mortgages	Personal Loans	Business Credit/ Secured Lending	Credit Cards	Car Finance	Current Accounts	Term Deposits
TSB			X	X	X	X	X	X		X	X
Clydesdale	X	X	X	X	X	X	X	X	X	X	X
Virgin Money			X	X		X		X		X	X
Metro Bank	X	X	X	X	X	X	X	X		X	X
OSB			X	X	X	X					X
Paragon	X		X	X	X	X			X		X
Aldermore	X	X	X	X	X						X
Close Brothers	X	X			X	X			X		X
Shawbrook	X	X		X	X	X	X				X
Secure Trust	X	X			X	X	X		X	X	X
S&U						X			X		
Provident Financial						X		X	X		X

Intellectual property

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

Insurance

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

Colleagues

As of 31 December 2015, Metro Bank had 2,025 colleagues, approximately 50% of whom worked in Metro Bank stores and approximately 10% of whom worked in Metro Bank customer contact centres.

Litigation

There are no governmental, legal or arbitration proceedings (including proceedings that are pending or threatened of which Metro Bank is aware) during the 12 months preceding the date of this Private Placement Memorandum which may have, or have had, a significant effect on Metro Bank's financial position or profitability.

PART V:
DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

Directors

The following table lists the names, positions and ages of the Directors:

Name	Age	Position	Date appointed
Vernon W. Hill, II	70	Chairman	18 August 2008
Craig Donaldson	44	Chief Executive Officer	5 March 2010
Michael Brierley	57	Chief Financial Officer	5 March 2010
Alastair (Ben) Gunn	65	Senior Independent Director	5 March 2010
Stuart Bernau	64	Non-Executive Director	5 March 2010
Keith Carby	69	Non-Executive Director	5 March 2010
Lord Howard Flight	67	Non-Executive Director	5 March 2010
Eugene Lockhart	66	Non-Executive Director	5 March 2010
Roger Farah	63	Non-Executive Director	1 February 2014
Sir Michael Snyder	65	Non-Executive Director	22 September 2015

Directors

Vernon W. Hill, II – Chairman

Mr Hill was the founder and Chairman for 34 years (now retired) of Commerce Bancorp, Inc. (NYSE:CBH), which began as a start-up bank in 1973 and in 2007 was sold to The Toronto-Dominion Bank for approximately U.S.$8.5 billion. Commerce Bancorp, Inc. began as a one branch new bank and grew to U.S.$50 billion in assets, with 440 branches. Mr Hill is also involved in a number of different banking and non banking related businesses and voluntary ventures in the U.S.

Craig Donaldson – Chief Executive Officer

Mr Donaldson was Managing Director, Retail Products and Direct Channels, of RBS UK with responsibility for all retail and private products, including credit cards, current accounts, savings, investments and loans. He was also Chair of the Retail Asset and Liabilities Committee and Retail Product Board and a member of the Retail Board, Retail Risk Committee and RBS UK Asset & Liabilities Committee.

Michael Brierley – Chief Financial Officer

Mr Brierley joined Metro Bank in April 2009 and is responsible for Metro Bank's Finance, Treasury, Legal, Procurement and Company Secretarial functions. Mr Brierley is a Fellow of the Institute of Chartered Accountants, having qualified in 1984 while working for Ernst & Young. Immediately prior to joining Metro Bank in 2009, Mr Brierley was Director, Business Risk at Barclaycard. Prior to this role, Mr Brierley undertook various senior finance and risk roles in Capital One Bank (Europe) plc between 1999 and 2006, including being Chief Financial Officer UK & Europe (2000 to 2002) and Chief Risk Officer (2002 to 2006). Mr Brierley has also acted as Chief Financial Officer for Royal Trust Bank, a retail and commercial bank, Financial Controller at Industrial Bank of Japan and Chief Financial Officer of Gentra Limited, a vehicle created to purchase and manage residential and commercial property related debt.

Alastair (Ben) Gunn – Senior Independent Director

Mr Gunn was Chief Executive and, more recently, Chairman of Friends Provident Life and Pensions Ltd and a director of Friends Provident plc, a FTSE 100 company. In his role as Group Executive Director, he was responsible for all aspects of the Friends Provident group's life and pensions activities worldwide, covering some 3,800 of the Friends Provident group's c. 4,300 staff. More recently he was the Senior Independent Director at Aviva UK and chair of the audit committee at Avelo.

Stuart Bernau – Non-Executive Director

Mr Bernau has worked in financial services for 42 years, including 13 years as a main board director of Nationwide Building Society, during which time he had responsibility for retail operations, commercial lending, treasury and marketing. He served as chair and CEO of Chelsea Building Society and has chaired the Council of Mortgage Lenders and the Financial Services Sector Skills Council.

He has served on the Metro Bank Board since 2010 and is the chair of the Audit Committee and a member of the Risk Committee.

Keith Carby – Non-Executive Director

Mr Carby is CEO of the Caerus Capital Group Ltd and Non-Executive Chairman of Foster Denovo plc. He was joint founder and managing director of J. Rothschild Assurance (now St. James's Place plc.). Mr Carby was also joint founder of the Financial Services Forum and was a founding trustee of the 9/11 London Project.

Lord Howard Flight – Non-Executive Director

Lord Flight was Conservative MP for Arundel and South Downs, West Sussex, from 1997 to 2005, during which time he held several Shadow posts, including Shadow Chief Secretary to the Treasury and was a member of the Shadow Cabinet from 2002 to 2004. Lord Flight was appointed to the House of Lords in January 2011. He was joint founder and managing director of Guinness Flight Global Asset Management. He is chairman of Arden Partners plc and of Flight and Partners, a director of Investec Asset Management Limited and Commissioner of the Guernsey Financial Services Commission. Lord Flight also has a number of other non-executive board appointments, both in the UK and overseas.

Eugene Lockhart – Non-Executive Director

Mr Lockhart is a special adviser to General Atlantic, a leading global growth investment firm. Mr Lockhart is also chairman and managing general partner of MissionOG LLC, an early stage, growth equity investment firm which specialises in investing in hyper-growth, technology-oriented companies serving the financial services sector. He served as president and CEO of MasterCard Worldwide, where he led its transition to a for-profit enterprise. Subsequently, he worked as president of the Global Retail Bank at Bank of America, leading all of the bank's retail and commercial banking businesses globally until its sale to NationsBank. Prior to those experiences, Mr Lockhart was the CEO of Midland Bank UK and Chairman of First Direct and Thomas Cook. Over the last 15 years, Mr Lockhart has also been a successful private investor and adviser to several private equity firms. Mr Lockhart has served on many public company boards, including First Republic Bank, RJR/Nabisco, Huron Consulting, Cognizant, IMS Health and RadioShack.

Roger Farah – Non-Executive Director

Mr Farah is the co-CEO of Tory Burch. Mr Farah is the former Executive Vice Chairman of Ralph Lauren Corporation, having served in that position from November 2013 to May 2014. He previously served as Ralph Lauren Corporation's president and chief operating officer and as a member of its board of directors from April 2000 to October 2013. From 1994 to 2000, Mr Farah was chairman of the board and CEO of Footlocker Inc. Prior to that, he served as president and chief operating officer of Macy's Inc, chairman and CEO of Federated Merchandising Services and Chairman and CEO of Rich's Department Stores, and has also held executive positions at Saks Fifth Avenue. Mr Farah is on the board of directors of Aetna, Inc, and the Progressive Corporation.

Sir Michael Snyder – Non-Executive Director

Sir Michael has led Kingston Smith for the past 36 years as managing partner, and since 1990, also as senior partner. Over the past year, Sir Michael has primarily focused on the externally-facing role of the Senior Partner. During Sir Michael's tenure, the firm has grown from seven partners to 64, increased its headcount to more than 500 and reached a turnover that exceeds £43 million. He helped establish the National Business Angels Network and acted as its chairman between 1999 and 2002 and sat on the Small Business Council and Small Business Investment Taskforce. He is the current chairman of GLE Loan Finance Ltd, an alternative source of finance for growing small businesses based in the capital. Sir Michael is the chairman of the Association of Practising Accountants and is co-chairman of the Government's Professional Business Services Council. Sir Michael is an elected member of the City of London Corporation since 1986 and was Chairman of Policy and Resources, effectively the leader, between 2003 and 2008. In 2008, Sir Michael was knighted for his services to business and to the City of London.

Senior Management Team

Metro Bank's current senior management, in addition to the Executive Directors listed above, is as follows:

Name	Age	Position
Aileen Gillan	47	Chief Risk Officer
Aisling Kane	47	Chief Operating Officer
Paul Riseborough	37	Chief Commercial Officer
Danielle Harmer	48	Chief People Officer
Iain Kirkpatrick	43	MD – Retail Banking
Ian Walters	53	MD – Business Banking
Mark Stokes	53	MD – Commercial Banking
Chit Ghee Yeoh	45	Head of Internal Audit

Aileen Gillan – Chief Risk Officer

As Chief Risk Officer, Ms Gillan is responsible for management and oversight of the risk and control framework across the bank. This includes ensuring that Metro Bank fulfils its regulatory obligations, while lending safely and sustainably and continuing to deliver high levels of customer service. A qualified barrister, Ms Gillan spent the first ten years of her career in a number of advisory roles. Ms Gillan joined Metro Bank from Lloyds Banking Group plc, where most recently she was Chief Risk Officer for the Asset Finance businesses. Prior to that, she was accountable for the management of risk and compliance across a range of businesses in major financial institutions.

Aisling Kane – Chief Operating Officer

At Metro Bank, Ms Kane is responsible for everything that underpins the smooth running of the bank. This includes its 24/7 Contact Centre, IT, banking and lending operations, as well as facilities and property management. Trained as a chartered accountant with KPMG, Ms Kane has worked in the banking industry for more than 16 years. Ms Kane joined Metro Bank as the ninth colleague in December 2009 to help build the bank, which has given her a deep appreciation for working with like-minded people with a shared vision for success. Before joining Metro Bank, she held the role of Director of UK Operations for Anglo Irish Bank plc.

Paul Riseborough – Chief Commercial Officer

Mr Riseborough joined Metro Bank in December 2011 and is responsible for Metro Bank's retail, business and commercial products, Digital proposition, Change programme and Communications Team. He also runs Metro Bank's Customer insights programme. Prior to joining Metro Bank, Mr Riseborough held various roles at Lloyds Banking Group plc and HBOS plc, including Head of Strategy and Planning, Head of Acquisition and Head of Channel Planning in the banking products area of each business. He was also Business Manager to the Chairman of HBOS plc and Pearson plc. Mr Riseborough started his career in consultancy, working for the global policy and economics consultancy Oxford Analytica and management consultancy PA Consulting Group. He was educated at Nottingham, Oxford and Warwick Universities and is a Member of the Chartered Institute of Bankers in Scotland.

Danielle Harmer – Chief People Officer

Ms Harmer is responsible for all aspects of looking after Metro Bank's people and enabling its culture and values. A Chartered member of the Chartered Institute of Personnel and Development (CIPD), Ms Harmer has worked in retail banking for over 20 years both in business leadership and human resources roles. She joined the Halifax Building Society in 1992, which then merged with Bank of Scotland to become HBOS plc and latterly was acquired by Lloyds Banking Group plc. Her roles ranged from New Business Manager and Regional Director to HR Director for the Lloyds TSB, Halifax and Bank of Scotland branch networks. Before joining Metro Bank, she was responsible for human resources in the Corporate Functions in Barclays plc Retail and Business Banking. Ms Harmer has a degree in Economics and Business Economics from the University of Southampton and is also a Court Member for the Guild of HR Professionals.

Iain Kirkpatrick – MD – Retail Banking

Mr Kirkpatrick joined Metro Bank in August 2015, with the responsibility for ensuring that the stores deliver an experience attracting FANS not customers. He is a leading advocate of community banking and aims to ensure that every Metro Bank store is at the heart of its local area. Prior to joining Metro Bank, Mr Kirkpatrick led UK Private Banking at Lloyds Banking Group plc. He has held a number of senior roles, including Retail and Mortgage Director for Lloyds TSB Scotland and the running of retail branch networks for Lloyds and Halifax in London and the South East. He is a Fellow of the Chartered Institute of Bankers in Scotland.

Ian Walters – MD – Business Banking

Mr Walters is responsible for growing Metro Bank as a trusted adviser and lender to small businesses with additional responsibility for Partnerships, Private Banking, Asset Finance and Invoice Finance. Mr Walters joined Metro Bank in August 2015 with a strong background in business and commercial banking. He was recently Managing Director of Business Banking for RBS plc and NatWest, supporting several thousand relationship managers. He was previously responsible for Specialised Relationship Management across Business and Commercial Banking for RBS plc and NatWest.

Mark Stokes – MD –Commercial Banking

Mark joined Metro Bank in January 2016 and will oversee the bank's rapidly expanding commercial activity and champion small and medium-sized enterprises, which receive close to half of the bank's total lending. Mark has over 25 years of experience at Lloyds Banking Group where he held a number of senior positions, including managing director of its commercial banking division. Most recently, he led Williams & Glyn's corporate business banking unit.

Chit Ghee Yeoh – Head of Internal Audit

Ms Yeoh joined Metro Bank as Director of Internal Audit in March 2014. Before that, she led internal audit services for banks and securities houses at Deloitte. In that role, she has acted as interim Head of Audit at various banks, performed External Quality Assurance reviews for numerous financial institutions from global financial institutions to foreign banks operating in the UK, and led the relationships with banks for co-sourced and out-sourced internal audits. In addition to internal audit and other assurance projects, Chit Ghee has led various investigative projects supporting expert witness statements. The nature of this work included analysing documents, following cash and asset trails, working with criminal law enforcers and lawyers and preparing reports suitable for use in courts of law.

Corporate governance

UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance. The Board complies and intends to continue to comply with the requirements of the UK Corporate Governance Code. The Company will report to its Shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

As envisaged by the UK Corporate Governance Code, the Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee. In addition, the Board has also established a Risk Oversight Committee. If the need should arise, the Board may set up additional committees as appropriate.

The UK Corporate Governance Code recommends that at least half the board of directors of a UK-listed company, excluding the chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. As of the date of this Private Placement Memorandum, the Board consists of seven Non-Executive Directors. The Company regards each of these seven Non-Executive Directors as "independent non-executive directors" within the meaning of the UK Corporate Governance Code and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing on the Official List of the FCA should appoint one of the Non-Executive Directors to be the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of the CEO has failed to resolve or for which such contact is inappropriate. Alastair (Ben) Gunn has been appointed Senior Independent Director.

The UK Corporate Governance Code further recommends that directors should be subject to annual re-election. The Company intends to comply with these recommendations.

Audit Committee

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing Metro Bank's annual and half-year financial statements and accounting policies, internal and external audits and controls, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit, audit controls, whistleblowing and fraud systems in place within Metro Bank. The Audit Committee will meet normally not less than four times a year.

In compliance with the requirements of the UK Corporate Governance Code, the Audit Committee is made up of three members who are each independent Non-Executive Directors and includes one member with recent and relevant financial experience. The Audit Committee is chaired by Stuart Bernau who is considered by the Board to have recent and relevant financial expertise. The other members of the Audit Committee are Keith Carby and Eugene Lockhart.

Nomination Committee

The Nomination Committee assists the Board in reviewing the structure, size and composition of the Board. It is also responsible for reviewing succession plans for the Directors, including the Chairman and CEO and other senior executives.

The UK Corporate Governance Code recommends that a majority of the members of a nomination committee should be independent non-executive directors. The Nomination Committee is chaired by Lord Flight, and its other members are Vernon W. Hill, II, Roger Farah and Keith Carby. The Nomination Committee will normally meet not less than twice a year.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, including setting the over-arching principles, parameters and governance framework of Metro Bank's remuneration policy and determining the individual remuneration and benefits package of each of the Company's Executive Directors. The Remuneration Committee will also ensure compliance with the UK Corporate Governance Code in relation to remuneration.

The UK Corporate Governance Code provides that a remuneration committee should comprise at least three members who are independent Non-Executive Directors (other than the Chairman). The Remuneration Committee is chaired by Lord Flight, and its other members are Roger Farah and Keith Carby. The Remuneration Committee will meet normally not less than twice a year.

Risk Oversight Committee

The Risk Oversight Committee is responsible for providing oversight and advice to the Board in relation to risk management systems, risk appetite, strategy and exposure, reviewing and approving risk policies, assessment processes and reporting within Metro Bank.

The Risk Oversight Committee is made up of four members, all of whom are independent Non-Executive Directors. The Risk Oversight Committee is chaired by Eugene Lockhart, and its other members are Stuart Bernau, Alastair (Ben) Gunn and Sir Michael Snyder. The Risk Oversight Committee will normally meet not less than four times a year.

Share dealing

The Company has adopted, with effect from Admission, a code of securities dealings in relation to the Shares which is based on, and is at least as rigorous as, the model code published in the Listing Rules. The code adopted will apply to the Directors and other relevant staff.

Conflicts of interest

A key component of Metro Bank's strategy is the use of a distinctive branding concept and reflecting this concept in the design of its stores. Architectural, design and branding services are provided to Metro Bank by InterArch, Inc. ("**InterArch**"), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II and which has been tasked by Metro Bank with the creation and implementation of this concept. Metro Bank's stores are designed to be highly visible (typically with large glass storefronts and fitted out in Metro Bank's recognisable red and blue colours).

In order to ensure that the terms of any arrangements between InterArch and Metro Bank are consistent with those that could be obtained from an independent third party, the contractual arrangements with InterArch are subject to periodic review by the Company's Audit Committee using annual benchmarking reviews conducted by authoritative independent third parties. This process has been in place since the inception of Metro Bank and Metro Bank has disclosed its arrangements with InterArch in its annual report and accounts.

The Audit Committee has concluded that the arrangements with InterArch are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an independent third party.

Further information on the services provided by InterArch to Metro Bank are set out in paragraph 15 (Related party transactions and other arrangements) of Part XVII: "Additional Information" sets out information about the arrangements between Metro Bank and InterArch.

Save as disclosed above, there are no potential conflicts of interest between any duties owed by the Directors or Senior Managers to the Company and their private interests or other duties.

Advisory Board

In June 2015, Metro Bank announced the creation of the Metro Bank Advisory Board consisting of a group of prominent business people to act as advisers to Metro Bank and play an important role in strengthening its brand and developing its business and reach. The Metro Bank Advisory Board consists of Metro Bank's Chairman and CEO; Jamie Reuben, a principal at Reuben Brothers and managing partner at Melbury Capital; Andrew B. Cohen, co-founder and managing director of Cohen Private Ventures; Harrison LeFrak, vice-chairman of LeFrak Property; John Roddan, founder of JMS Realty; Amit Bhatia, executive chairman of Hope Construction Materials and managing partner of Swordfish Investments; Jeff Dishner, senior management director of Starwood Capital Group; Tom Smith, founder of Precott Investors; Denzyl Feigelson, adviser to Apple; Jacopo Pessina, director of M&A at Walgreens Boots Alliance; Mark Ricks, President and CEO of Kennedy Wilson; and Rachael Robathan, a Westminster City Councillor.

PART VI:
SUPERVISION AND REGULATION

1 UK Regulatory Bodies

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

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

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

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

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

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

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

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

The PRA's general objective

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

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

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

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

The FCA's objectives

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

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

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

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

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

1.2 The UK Government

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

1.3 The Financial Ombudsman Service (the "FOS")

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

2 UK Regulation

2.1 Overview of UK financial services regulation

2.1.1 Financial Services and Markets Act 2000

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

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

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

In addition, persons holding certain specified functions within Metro Bank (including governance functions) require the prior approval of the PRA or the FCA (depending on the particular function) before they can perform the role. A new Senior Managers Regime for individuals who are subject to regulatory approval will come into force on 7 March 2016 in the UK. It will require firms to allocate a range of responsibilities to these senior individuals and to regularly assess their fitness and propriety. In addition, a new Certification Regime is being introduced under which relevant firms will also be required to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers.

The government is proposing to extend the senior managers and certification regime to all sectors of the financial services industry through the Bank of England and Financial Services Bill, as outlined in its policy paper of 15 October 2015. The aim of this is to ensure that the same standards apply in respect of both banking and other financial services.

2.1.2 Financial services regulatory source materials

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

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

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

2.1.3 Supervision

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

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

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

2.1.4 Enforcement

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

2.1.5 Challenging the PRA/FCA

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

2.2 Capital adequacy, prudential regulation and the European regulatory landscape

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

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

Recent background

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

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

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

Current regulatory regime – some key details

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

The majority of the provisions of CRD IV apply from 1 January 2014, but in some cases are subject to a phased implementation timetable and in some areas implementation is subject to further review, reports, delegated regulations, technical standards and guidance. Currently, the intention is that all aspects of CRD IV will be fully implemented by 1 January 2019. In particular, the LCR came into effect as a reporting obligation on 1 January 2014 but only applied as a quantitative test from 1 October 2015 and, subject to a European Commission report due at the end of 2016 on the implementation of the NSFR, this ratio is expected to be adopted in some form by 1 January 2018. Similarly, the leverage ratio applies as a reporting obligation and a decision on whether it should apply as a quantitative test is expected to be taken in mid-2016 with the test then applying from 1 January 2018 (but see further below in relation to UK implementation).

However, it is noted that Member States can:

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

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

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

The specific detailed technical rules for calculating capital as set out in CRD IV (and any implementing delegated regulations, technical standards and guidance) broadly require capital to be held against risks associated with credit risk, market risk and operational risk arising from a bank's activities. The PRA considers that in some cases the rules do not fully capture the risks involved and other risks not captured by such rules are also relevant when determining capital requirements. Accordingly, (as required under CRD IV) national supervisors (in the UK, the PRA) separately evaluate the activities, and risk profile, of a bank to determine whether it should hold higher levels of capital, such additional capital being referred to as Pillar 2 capital. The PRA has recently published its revised approach to Pillar 2 requirements which apply in full from 1 January 2016 (refer to PRA Policy Statement PS 17/15, Supervisory Statements SS31/15 and SS32/15 and its Statement of Policy 'The PRA's methodology for setting Pillar 2 Capital). Although part of the Pillar 2 capital requirement (Pillar 2A) can be met with a blend of regulatory capital, including Common Equity Tier 1 capital, the subset of Pillar 2 capital known as Pillar 2B (or the PRA buffer), which addresses risks due to the economic environment must be met solely with Common Equity Tier 1 capital.

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

In October 2013, the Bank of England released a discussion paper proposing a new framework for annual, concurrent stress tests of participants in the UK banking system and from 2014 annual stress tests were implemented for the major UK banks and building societies. In October 2015, the Bank of England published its approach to stress testing the UK banking system, setting out the main features of its stress-testing framework up to 2018. The framework applies to PRA regulated banks and building societies with total retail deposits greater than £50 billion (on an individual or consolidated basis) and so does not currently apply to Metro Bank.

Current regulatory regime – leverage ratio

The PRA took early steps in December 2013 to apply a 3% leverage ratio as a quantitative test to certain major UK banks and building societies (not including Metro Bank). Though this has been extended under recently published PRA rules in force from 1 January 2016 to PRA regulated banks and building societies with individual or consolidated retail deposits equal to or greater than £50 billion it does not yet apply to Metro Bank. A further review of the issue by the FPC is scheduled for 2017 with the presumed intention of extending the framework to all PRA regulated firms, including Metro Bank and in any event the CRR leverage ratio is also expected to apply as a quantitative test from 1 January 2018.

Current regulatory regime – interpretation and change

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

For more information see Part II: "Risk Factors — Metro Bank is subject to prudential regulatory capital and liquidity requirements".

2.3 Recovery and resolution

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

Work in a similar vein has been ongoing at the European level and resulted in the Bank Resolution and Recovery Directive 2014/59/EU (the "**BRRD**") which was published in the Official Journal of the EU mid-2014 with an implementation timetable of 1 January 2015, except in relation to certain bail-in provisions which must be implemented by 1 January 2016. In summary, bail-in relates to the mandatory write-down or conversion of debt liabilities. However, full implementation (and interpretation) of the BRRD relies on the implementing regulations, regulatory technical standards, implementing technical standards and guidance which are still being produced in respect of it. There are already a number of areas where the financial markets are seeking greater clarity on BRRD, including in relation to the operation of bail-in.

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

There have been a number of concerns around the implementation of bail-in generally and though new rules have been adopted by the PRA to address bail-in. these are subject to an ongoing consultation and so firms can apply for a short-term waiver from the full rigour of the rules for particular liabilities in particular circumstances.

In connection with the implementation of the BRRD, the Bank of England published a report on 23 October 2014 outlining its approach to resolution of banks, building societies and certain investment firms from 1 January 2015. The report details the key phases to any resolution and the various stabilisation tools to be used at each stage in order to give greater clarity over how the Bank of England would likely approach a resolution.

For more information, see Part II: "Risk Factors—Metro Bank is subject to rules relating to regulatory action in the event of a bank failure."

2.4 Consumer credit regulation

Responsibility for the oversight and regulation of consumer credit transferred from the Office of Fair Trading (the "**OFT**") to the FCA with effect from 1 April 2014. The new framework for consumer credit regulation comprises the FSMA and its secondary legislation (consumer credit activities are, therefore, now subject to the General Prohibition and the FSMA authorisation regime discussed earlier in this Part VI: "Supervision and Regulation"), retained provisions in the CCA and rules and guidance in the FCA Handbook, including the CONC (for the purposes of this section, collectively the "**New Regime**").

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

Key changes to the UK consumer credit regime that have arisen from the New Regime include:

(i) *Authorisation*: application for full authorisation will, in general, be more complex than an application under the previous CCA regime. To become authorised, firms must meet the threshold conditions (the minimum standards for becoming and remaining authorised) and obtain pre-approval for individuals who will perform key roles in the applicant firm;

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

(iii) *Rules*: the CCA requirements and OFT guidance were replaced by FCA rules (breaches of which can be penalised), guidance and retained provisions of the CCA. The FSMA financial promotions regime *also* applies, and the FCA has also imposed new financial promotion rules for high cost short-term credit, cold calling and debt management companies;

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

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

2.4.1 Interim permission regime

To facilitate transition to the New Regime, the UK Government has introduced an interim permission regime, which is a transitional arrangement for regulation by the FCA.

Firms with a CCA licence from the OFT, including all High Street retail banks, were required to register with the FCA for "interim permission" to be able to continue carrying on regulated consumer credit activities after 1 April 2014. Metro Bank obtained interim permission for consumer credit, for entering into credit agreements and for credit broking from the FCA, and has applied for formal authorisation for its consumer credit activities. Metro Bank's application is currently in the process of being reviewed by the FCA. Metro Bank expects its application to be approved during the course of 2016. However, if its application is not approved, it may no longer be able to undertake regulated consumer credit activities, such as unsecured lending and credit card transactions.

2.4.2 European regulatory landscape

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

2.5 Mortgage lending

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

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

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

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

Principal changes are to promote responsible lending and include:

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

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

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

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

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

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

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

2.5.1 European regulatory landscape

The directive on credit agreements relating to residential property, commonly known as the Mortgage Credit Directive ("**MCD**") came into effect on 20 March 2014. The MCD was, to some extent, modelled on the second directive on consumer credit and requires, among other things, standard pre-contractual information to be provided to the borrower, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and the borrower to have a right to make early repayment. In addition, the European Commission has indicated that it will be carrying out further work around mortgage foreclosure, default and underwriting requirements and the MCD itself provides for a review after five years.

The MCD is due to enter into force in the UK from 21 March 2016. Changes include amendment of the definition of "regulated mortgage contract" to include second charge lending, bringing the regulation of second charge mortgage lending into line with first charge lending (rather than it being regulated under the FCA's consumer credit regime), and the establishment of a framework for regulating buy-to-let mortgage lending to consumers.

2.6 Payment Services Regulation

Under the Payment Services Regulations 2009 (the "**PSR**"), the FCA is responsible for regulating payment services in the UK. The PSR establish an authorisation regime, requiring payment service providers (other than authorised credit institutions such as Metro Bank) to either be authorised or registered with the FCA. The PSR also contain certain rules about providing payment services that payment service providers must comply with, including in relation to consent for payment transactions, unauthorised or incorrectly executed transactions, liability for unauthorised payment transactions, refunds, execution of payment transactions, execution time, information to be provided to payment service users and liability of payment services providers if things go wrong.

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

The general functions of the Payment Systems Regulator are:

(i) giving general directions;

(ii) giving general guidance; and

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

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

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

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

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

2.6.1 European regulatory landscape

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

In July 2013, the European Commission proposed a revised payment services directive ("**PSD II**") to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. It also published a proposal for a regulation on multilateral interchange fees. Taken together, the proposals are designed to (i) extend the scope of the Payment Services Directive as regards geographical scope, currencies covered and payment services regulated, (ii) limit the scope of available exemptions under the Payment Services Directive, (iii) increase consumer rights and payment security and (iv) reduce interchange fees for card payments and prohibit surcharging. The multilateral interchange fee regulation was agreed in the EU in 2015 and comes into force from 9 December 2015. PSD II was adopted by the European Parliament on 8 October 2015 and is due to be adopted by the Council of Ministers shortly.

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

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

In relation to payment accounts, on 28 August 2014, the text of Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**") was published in the Official Journal of the European Union. The Payment Accounts Directive is intended to enable consumers to make informed choices when opening a payment account by improving the transparency and comparability of information on account fees, while eliminating discrimination based on residency, and to enable consumers to switch accounts more easily. Member States will have to transpose the Payment Accounts Directive into their own national law by 18 September 2016. However, there are a few exceptions to this, including certain provisions of the Directive that apply to Member States from 17 September 2014.

2.7 UK ring-fencing regime

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

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

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

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

In addition to the primary and secondary ring-fencing legislation, the PRA has issued consultation papers setting out proposed ring-fencing rules that govern the relationship between the RFB and the rest of its group, including entities that carry out excluded activities and activities that the RFB is prohibited from undertaking (such entities being non-ring-fenced bodies, or "**NRFBs**"). These ring-fencing rules address areas such as the legal structure of the RFB sub-group, governance arrangements for RFBs, prudential requirements and requirements for intra-group transactions and distributions. The PRA and the FCA have also issued draft guidance on the use of ring-fencing transfer schemes under Part VII of the FSMA, which are a new form of statutory transfer mechanism to enable banking groups to reorganise their businesses so as to comply with the ring-fencing regime. Finally, the FCA has issued draft rules on the disclosures required to be made by NRFBs to individuals that opt to place deposits with such entities. The intention is that the ring-fencing rules and guidance will be finalised by the end of June 2016.

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

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

2.8 FSCS and the EU Deposit Guarantee Scheme Directive ("EU DGSD")

2.8.1 FSCS

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. There are different compensation limits for different categories of claim. For example, for claims against firms declared in default on or after 3 July 2015 the limits are: (i) for deposits, 100% of the first £75,000; (ii) for mortgage advice and arranging, 100% of the first £50,000; and (iii) for insurance, 100% of cover for all long-term policies, for professional indemnity insurance and claims arising from death or incapacity. The FSCS pays compensation for financial loss and the actual compensation a customer will receive depends on the basis of their claim. Compensation limits are per person, per firm and per type of claim.

2.8.2 EU DGSD

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

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

The PRA's consultation on implementing the recast EU DGSD closed on 6 January 2015 (a second consultation closed on 27 February 2015) and on 3 July 2015, the PRA announced the proposed changes. These included the new limit of £75,000 while maintaining the existing limit of £85,000 until 31 December 2015, for depositors who were previously protected by the FSCS and continue to be protected (including individuals and small companies) and extending deposit protection to new categories of depositors that were not previously protected by the FSCS, such as large corporates.

The implementation of the recast EU DGSD may result in greater administrative and financial burdens on participating firms. Direct cost increases may result from increased contributions to the schemes and greater indirect costs may arise from necessary changes to procedures and IT systems.

2.9 Competition regulation

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

On 18 July 2014, the CMA published an update on its market studies in respect of personal current accounts and SME banking (the SME banking market study is a joint project with the FCA). The market studies update identifies a number of areas of concerns (e.g., difficulties for customers in making comparisons between banks and low levels of switching between banks) and evidence that competition is not effectively serving the interests of SMEs or personal current account customers. Following this, on 6 November 2014 the CMA announced its decision to launch a joined up in-depth market investigation into the markets for personal current accounts and SME banking. The CMA's provisional findings were published on 22 October 2015. In its provisional report, the CMA identified numerous competition issues in the retail banking market, including low levels of customer switching, indicating that banks are not put under enough competitive pressure, and new products and new banks do not attract customers quickly enough. The CMA also published an initial list of remedies, setting out possible measures to enable account holders to search for and switch to the account that suits them, hoping to increase competition. These potential remedies will be developed over the coming months. The CMA's final report is expected to be published in April 2016.

The FCA has launched market studies in respect of general insurance add-ons, retirement income and cash savings plans and the operation of the credit card market. In July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas that might merit further investigation through an in-depth market study and, following this, on 22 May 2015 the FCA set out the terms for its first wholesale market study into investment banking and corporate banking services, with interim findings and any proposed remedies to be published ahead of the final report in April 2016.

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

2.10 Other relevant legislation and regulation

The UK Money Laundering Regulations 2007 place a requirement on Metro Bank to verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud. In addition, the Proceeds of Crime Act 2002, Terrorism Act 2000, Counter-Terrorism Act 2008, Terrorist Asset-Freezing etc. Act 2010, Wire Transfer Regulation (EU Regulation 1781/2006) and Transfer of Funds (Information on the Payer) Regulations 2007/3298 collectively contain requirements and offences in relation to money laundering and the financing of terrorism that are applicable to Metro Bank. Guidance in respect of Metro Bank's anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group, which is made up of certain UK trade associations in the financial services industry.

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

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

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

2.11 Proposed legislation

2.11.1 European structural reform proposals

At the same time as the UK has been implementing the ring-fencing regime set out in paragraph 2.7 above, there have been proposals at the European level to implement structural reform in the banking sector. In October 2012, a report was published by a high-level expert group of the European Union, chaired by Erkki Liikanen (the Governor of the Bank of Finland) (the "**Liikanen Report**"). The Liikanen Report recommended banking restructuring and a mandatory separation of proprietary trading and other "high-risk" trading activities into a separate legal entity within banking groups and the introduction of measures to strengthen governance and control of banks.

Following from the Liikanen Report, in January 2014 the European Commission published a legislative proposal of the European Parliament and of the Council on structural measures improving the resilience of EU credit institutions (the "**BSR**"). It was originally proposed that the BSR would apply to certain large banks and banking groups, and would require affected banks to separate their trading activities from their retail banking operations. The original proposals in the BSR also provided for a ban for those affected banks on proprietary trading and investment in alternative investment funds (subject to some limited exceptions).

Since the publication of the BSR in January 2014, there have been extensive discussions within the EU on the scope and form of the draft proposals and the nature of the proposed separation requirements and restrictions on activities. One element of the discussions focuses on whether the UK ring-fencing regime will be deemed to be equivalent to the requirements set out in the BSR, such that UK banks are not required to comply with an additional set of ring-fencing requirements at a European level. Agreement on the final form of the BSR is expected to be reached in mid-2016. Until the final form of the BSR is agreed, there will remain some uncertainty on the precise scope and form of these proposals.

Based on the scope of the original BSR, Metro Bank would not be subject to the proposals for structural reform at a European level; however, the restrictions on activities of larger banks and banking groups may affect Metro Bank when transacting with those entities.

2.11.2 Other

The UK's Consumer Rights Bill (the "**Bill**") seeks to reform and consolidate much of the consumer law in the UK and was formally introduced to the House of Commons on 23 January 2014. The Bill will entirely revoke the Unfair Terms in Consumer Contracts Regulations 1999 and will broadly implement the Law Commission's recommendations published in March 2013. These changes include that contract terms relating to the price or main subject matter of the contract may be assessed for fairness if they are not "transparent and prominent", all written terms of a consumer contract or consumer notice must be transparent and that rules on contract terms apply to any secondary contract in addition to the main contract. The Bill is being considered by the House of Commons and the House of Lords.

In February 2013, the European Commission adopted proposals for a directive on the prevention of the use of the financial systems for the purpose of money laundering and terrorism financing (the "**Fourth Money Laundering Directive**") and a regulation on information accompanying transfer of funds to secure due traceability of these transfers. The Fourth Money Laundering Directive was finalised and entered into force on 26 June 2015. Member States have two years to implement the changes in the directive, which include, among other things, extending the scope of the previous directive, requiring evidence based measures to be implemented and tighter rules on customer due diligence.

HM Treasury published a consultation paper on 28 March 2014 which sought views on whether the UK Government should take legislative action to help match SMEs that have been rejected for loans from other lenders with challenger banks and alternative finance providers. On 6 August 2014, HM Treasury published the responses it had received to the consultation paper and, in light of the support received, the Government tabled an amendment to the Small Business, Enterprise and Employment Bill in October 2014 (having received Royal Assent on 26 March 2015, the now Small Business, Enterprise and Employment Act), to allow HM Treasury the power to make regulations, including with respect to requiring certain banks to share information on SMEs they reject for finance. HM Treasury confirmed in its 2014 Autumn statement the list of designated banks to which these proposals would apply, which did not include Metro Bank.

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

PART VII:
HISTORICAL FINANCIAL INFORMATION

The following historical financial information is in draft form and unaudited. See "Presentation of Financial and Other Information – Historical financial information" for information regarding the preparation of Metro Bank's financial information. You should not make any decision regarding an investment in the Shares prior to reviewing the final unaudited historical financial information that will be contained in the Supplemental Private Placement Memorandum.

1 Metro Bank Historical Financial Information

Consolidated Statement of Comprehensive Income

		Year ended 31 December		
	Notes	**2015**	**2014**	**2013**
			(£'000) *(unaudited)*	
Interest income	5	125,199	70,028	27,747
Interest expense	6	(36,326)	(20,621)	(11,515)
Net interest income		88,873	49,407	16,232
Fee and commission income	7	15,713	16,076	5,491
Net gains on sale of investment securities	8	6,377	5,122	6,508
Other income	9	9,237	4,842	3,303
		120,200	75,447	31,534
Operating expenses	10	(141,563)	(107,940)	(75,652)
Depreciation and amortisation	18,19	(18,195)	(14,221)	(10,292)
Fees associated with listing		(1,465)	—	—
Impairment of property, plant & equipment and intangible assets		(8,744)	—	—
Total operating expenses		(169,967)	(122,161)	(85,944)
Credit impairment charges	16	(7,030)	(2,157)	(1,026)
Loss before tax		(56,797)	(48,871)	(55,436)
Taxation	15	7,592	9,789	11,001
Loss for the year		(49,205)	(39,082)	(44,435)
Other comprehensive income for the year				
Items which will be reclassified subsequently to profit or loss where specific conditions are met:				
Available for sale investments:				
- fair value gains/(losses)		(1,327)	8,328	(9,583)
- fair value gains transferred to the income statement on disposal		(6,377)	(5,122)	(6,508)
Total other comprehensive income		(7,704)	3,206	(16,091)

	Notes	Year ended 31 December 2015	2014	2013
Total comprehensive loss for the year		(56,909)	(35,876)	(60,526)
Loss per share				
Basic loss per share (pence)	36	(0.83)	(0.67)	(1.51)
Diluted loss per share (pence)	36	(0.83)	(0.67)	(1.51)

Consolidated balance sheet

	Notes	2015	2014	2013
		Year ended 31 December		
			(£'000) *(unaudited)*	
Assets				
Cash and balances with the Bank of England		217,900	180,630	238,979
Loans and advances to banks	30,31	64,248	35,040	24,205
Loans and advances to customers	16,30,31	3,542,548	1,590,346	751,058
Available for sale investment securities	17	361,607	1,304,410	696,434
Held to maturity investment securities	17	1,638,185	307,041	—
Property, plant and equipment	19	165,257	132,195	103,286
Intangible assets	18	54,243	34,669	23,830
Prepayments and accrued income	21	30,426	18,883	8,280
Deferred tax asset	15	55,942	46,409	36,619
Other assets	22	20,525	13,661	7,537
Total assets		6,150,881	3,663,284	1,890,228
Liabilities				
Deposits from customers	30,31	5,107,656	2,866,631	1,315,389
Repurchase agreements		561,779	282,544	143,816
Other liabilities	23	71,415	48,845	29,622
Total liabilities		5,740,850	3,198,020	1,488,827
Shareholders' equity				
Called up share capital	24	—	—	—
Share premium account	24	629,304	629,304	530,463
Retained earnings	26	(210,585)	(161,380)	(122,298)
Other reserves		(8,688)	(2,660)	(6,764)
Total shareholders' equity		410,031	465,264	401,401
Total equity and liabilities		6,150,881	3,663,284	1,890,228

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Available for sale reserve	IFRS 2 share option reserve	Total equity
			(£'000) *(unaudited)*			
Balance at 1 January 2013	—	246,155	(77,863)	8,571	364	177,227
Net loss for the year	—	—	(44,435)	—	—	(44,435)
Other comprehensive loss, net of tax, relating to available for sale investments	—	—	—	(16,091)	—	(16,091)
Total comprehensive loss	—	—	(44,435)	(16,091)	—	(60,526)
Share issue	—	284,308	—	—	—	284,308
Share options at fair value	—	—	—	—	392	392
Balance as at 31 December 2013	—	530,463	(122,298)	(7,520)	756	401,401
Balance at 1 January 2014	—	530,463	(122,298)	(7,520)	756	401,401
Net loss for the year	—	—	(39,082)	—	—	(39,082)
Other comprehensive income, net of tax, relating to available for sale investments	—	—	—	3,206	—	3,206
Total comprehensive (loss)/income	—	—	(39,082)	3,206		(35,876)
Share issue	—	98,841	—	—	—	98,841
Share options at fair value	—	—	—	—	898	898
Balance as at 31 December 2014	—	629,304	(161,380)	(4,314)	1,654	465,264
Notes	24	24	26			

The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.

Consolidated statement of cash flows

	Notes	Year ended 31 December 2014	2013
		(£'000)	
		(unaudited)	
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		(48,871)	(55,436)
Adjustments for:			
Depreciation and amortisation of intangible and tangible assets	18,19	14,221	10,292
Share option reserve	11	898	392
Gain on sale of securities	8	(5,122)	(6,508)
Accrued interest on securities		(4,090)	(4,449)
Changes in operating assets		(856,029)	(590,691)
Changes in operating liabilities		1,709,204	894,902
Net cash inflows from operating activities		810,211	248,502
Cash flows from investing activities			
Sales of investment securities		473,814	368,130
Purchase of investment securities		(1,376,410)	(638,480)
Purchase of property, plant and equipment	19	(41,036)	(59,161)
Purchase of intangible assets	18	(12,934)	(14,223)
Net cash outflows from investing activities		(956,566)	(343,734)
Cash flows from financing activities			
Share issues, net of costs	24	98,841	284,308
Net cash inflows from financing activities		98,841	284,308
Net (decrease)/increase in cash and cash equivalents		(47,514)	189,076
Cash and cash equivalents at start of year		263,184	74,108
Cash and cash equivalents at end of year		215,670	263,184
Loss before tax includes:			
Interest received		63,517	27,747
Interest paid		(18,213)	(11,515)
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		180,630	238,979
Loans and advances to banks	16	35,040	24,205
		215,670	263,184

Notes to the historical financial information

1 General information

Metro Bank PLC (the "**Company**") and its subsidiary undertakings (together, "**Metro Bank**") is domiciled in the UK. The registered office of Metro Bank is 1 Southampton Row, London, WC1B 5HA. Metro Bank provides retail and corporate banking services in the UK.

The consolidated historical financial information (the "**Historical Financial Information**") is presented in pounds sterling, which is the currency of the primary economic environment in which Metro Bank operates.

2 Basis of preparation

Accounting basis

Metro Bank's Historical Financial Information comprises the financial information of Metro Bank for the two years ended 31 December 2014. The Historical Financial Information has been prepared in accordance with the disclosure requirements of the Prospectus Directive regulation and the Listing Rules and in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the European Union.

The Historical Financial Information has been prepared on a historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries) for the two years ending 31 December 2014. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances, unrealised gains and losses on transactions between Metro Bank entities are eliminated upon consolidation.

Adoption of new and revised standards

As of the date of authorisation of this Historical Financial Information, the following standards and interpretations, which have not been applied in this Historical Financial Information were in issue but not yet effective and in some cases, not yet adopted by the European Union:

- IFRS 9 Financial Instruments
- IFRS 14 Regulatory Deferral Accounts
- IFRS 15 Revenue from Contracts with Customers
- IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations
- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation
- IAS 27 (amendments) Equity Method in Separate Financial Statements

- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRSs 2012-2014 Cycle: Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting
- IAS 1 (amendments) Disclosure Initiative
- IFRS 10, IFRS 12 and IAS 28 (amendments) Investment Entities: Applying the Consolidation Exception

The directors do not expect that the adoption of the standards listed above will have a material impact on the Historical Financial Information of Metro Bank in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments. An assessment of the impact of IFRS 9 is being completed. Note that IFRS 14 Regulatory Deferral Accounts is not applicable to Metro Bank as Metro Bank is not a first-time adopter of IFRSs.

Going concern

The Historical Financial Information is prepared on a going concern basis, as the Directors are satisfied that Metro Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the balance sheet, future projections of profitability, cash flows and capital resources and the longer term strategy of the business. Metro Bank's capital and liquidity plans, including stress tests, have been reviewed by the Directors. Metro Bank's forecasts and projections show that it will be able to operate at adequate levels of both liquidity and capital for the foreseeable future, including a range of stressed scenarios, taking into account the capital that is expected to be provided by the Private Placement, the availability of alternative sources of capital if required and appropriate management actions. After making due enquiries, the Directors believe that Metro Bank has sufficient resources to continue its activities for the foreseeable future and to continue its expansion, and Metro Bank has sufficient capital to enable it to continue to meet its regulatory capital requirements as out by the Prudential Regulation Authority.

3 Significant accounting policies

3.1 Foreign currency translation

(a) **Functional and presentation currency**

Items included in the Historical Financial Information are measured using the currency of the UK, which is the primary economic environment in which the entity operates ('the functional currency').

(b) **Transactions and balances**

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in 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 exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

3.2 Business combinations

Metro Bank applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by Metro Bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Metro Bank recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by Metro Bank is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

3.3 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the Historical Financial Information as pledged assets when the transferee has the right, by contract or custom, to sell or repledge the collateral; the counterparty liability is included in deposits from banks. Securities purchased under agreements to resell ('reverse repos') are recorded as other liabilities. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the Historical Financial Information.

3.4.1 Financial assets

Metro Bank allocates financial assets to the following IAS 39 categories: loans and receivables; held to maturity financial assets and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that Metro Bank does not intend to sell immediately or in the near term.

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers. Interest on loans is included in the income statement and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'Loan impairment charges'.

(b) **Held to maturity financial assets**

Certain investment securities are classified as "held to maturity". Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that Metro Bank has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available-for-sale.

Held to maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held to maturity investments would result in the reclassification of all held to maturity investments as available for sale and would prevent Metro Bank from classifying investment securities as held to maturity for the current and the two following financial years.

(c) **Available-for-sale financial assets**

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets 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 the other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

(d) **Recognition**

Metro Bank uses settlement date accounting when recording financial asset transactions where a trade is settled through the regular settlement cycle for that particular investment. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

3.4.2 Financial liabilities

Metro Bank's holding in financial liabilities is in financial liabilities at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers and repurchase agreements. Financial liabilities are derecognised when extinguished.

3.4.3 Amortised cost measurement and determination of fair value

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

"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 Metro Bank has access at that date. The fair value of a liability reflects its non-performance risk.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes quoted debt instruments on major exchanges and broker quotes.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, or pricing service and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

If there is no quoted price in an active market, Metro Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

3.4.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, Metro Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new assets obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by Metro Bank is recognised as a separate asset or liability.

Collateral furnished by Metro Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because Metro Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

3.5 Reclassification of financial assets

Metro Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if Metro Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

3.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

3.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest and similar income' and 'interest and similar expense' in the income statement using the effective interest method.

The effective interest 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 or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Metro Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.8 Fee and commission income

Fees and commissions are earned from a wide range of services provided by Metro Bank to its customers. Fee income is accounted for as follows:

(a) income earned on the execution of a significant act is recognised as revenue when the act is completed;

(b) income earned from the provision of services is recognised as revenue when the services are provided; and

(c) income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in interest income.

3.9 Impairment of financial assets

(a) Assets carried at amortised cost

Metro Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria that Metro Bank uses to determine that there is objective evidence of an impairment loss include: significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including: adverse changes in the payment status of borrowers in the portfolio; and national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

All individually significant assets held at amortised costs are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together loans assets with similar risk characteristics.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, Metro Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of Metro Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for banks of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in Metro Bank and historical loss experience for assets with credit risk characteristics similar to those in Metro Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in Metro Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by Metro Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges while impairment charges relating to investment securities (hold to maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets classified as available for sale

Metro Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses on available for sale assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Additional impairment indicators that may indicate that an equity investment's costs may not be recovered (in addition to those listed above) are: significant adverse changes in the technological, market, economic or legal environment in which the issuer operates; a "significant" or "prolonged" decline in the fair value of an investment in an equity instrument below its cost. In general, Metro Bank considers a decline of 20% to be "significant" and a period of 12 months to be "prolonged".

3.10 Share-based payments

The grant date fair value of options granted to colleagues is recognised as a colleague expense over the period in which the colleagues become unconditionally entitled to the options. The fair value of the services received 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 shares or share options granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using an option pricing model, which takes into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with bank.

3.12 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The leases entered into by Metro Bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.13 Property, plant and equipment

Property, plant and equipment comprises tangible assets which are held for use in the production or supply of goods or services and are expected to be used for more than one year.

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

Metro Bank uses the following annual rates in calculating depreciation:

Leasehold property	*lower of the remaining life of the lease or the useful life of the asset*
Land	*0%*
Fixtures and fittings and equipment	*20%*
Computer	*20% - 33%*

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

When deciding on depreciation rates and methods, the principal factors Metro Bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of, the assets. When reviewing residual values, Metro Bank estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful economic life.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

3.14 Intangible assets

Intangible assets are identifiable assets controlled by Metro Bank from which Metro Bank expects to derive future economic benefits and which have no physical substance.

Computer software: Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Metro Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate future economic benefits;
- adequate technical, financial and other resources to complete the development and to use of sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development staff costs and an appropriate portion of relevant overheads.

Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Intangible assets acquired as part of a business combination: Identifiable intangible assets acquired as part of a business combination are recognised as long as their fair value can be reliably measured.

Intangible assets are stated at cost less amortisation and provisions for impairment, if any, and are amortised over their useful lives in a manner that reflects the pattern to which they contribute to future cash flows, generally over 5-20 years. The useful life is reviewed annually to determine whether events and circumstances continue to support the useful life assessment.

At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Metro Bank uses the following annual rates in calculating amortisation:

Core banking software	*5%*
Significant banking software	*10%*
Other banking software	*20%*
Software licences	*Licence period*
Customer Contracts	*10%*

3.15 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over Metro Bank's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units (CGU), 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.

Impairment testing is performed at least annually, and whenever there is an indication that the CGU may be impaired, by comparing the recoverable amount of a CGU with its carrying amount. The recoverable amount of an asset is the higher of its fair value less cost to sell, and the present value of the expected future cash flows from a cash-generating unit. 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.

3.16 Income tax

(a) Current income tax

"Current income tax" comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where Metro Bank has 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 statement of financial position.

(b) Deferred income tax

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Historical Financial Information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal differences arise from trading losses and depreciation of property, plant and equipment.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets 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.

3.17 Staff benefits

Metro Bank operates a defined contribution pension scheme. Metro Bank pays contributions to colleagues' individual personal pension plans on a contractual basis. Metro Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as an expense when they are due.

3.18 Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

3.19 Critical accounting estimates and judgements

The preparation of Historical Financial Information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, actual results may ultimately differ from those estimates. Management believes that the underlying assumptions are appropriate and that Metro Bank's Historical Financial Information therefore present the financial position and results fairly.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed below.

(a) **Deferred tax**

The largest element of the deferred tax asset represents the future tax impact of carried forward tax losses which will reduce the payment of future tax. This element of the deferred tax asset requires management judgement in assessing its recoverability. At 31 December 2014, Metro Bank recognised a deferred tax asset of £46.4 million (31 December 2013: £36.6 million) in respect of tax losses carried forward. The increase reflects the taxable losses generated by the continued significant investment by Metro Bank in building stores, infrastructure and systems to enable future growth and scale to be achieved.

Accounting standards permit the recognition of a deferred tax asset to the extent that it is probable, more likely than not, that future taxable profits will be available to utilise the tax losses carried forward. This assessment of future taxable profits involves significant estimation uncertainty, principally relating to projections of future taxable income based on business plans. These income projections include assumptions about the future strategy of Metro Bank and its ability to deliver expected performance against projections for new stores, deposit and loan growth, loan to deposit ratio, interest margins and operating costs.

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

(b) **Impairment losses on loans and advances**

Individual impairment losses on loans and advances are calculated based on the individual valuations of the underlying asset. Collective impairment losses on loans and advances are calculated by applying an annualised charge to an emergence period for all accounts not subject to an individual provision. These key assumptions are monitored regularly to ensure the impairment allowance is entirely reflective of the current portfolio. The accuracy of the impairment calculation would therefore be affected by unanticipated changes to the economic situation and assumptions which differ from actual outcomes.

(c) **VAT receivable**

Metro Bank has negotiated with the relevant tax authorities a Partial Exemption Special Method (PESM). This PESM sets out the method by which Metro Bank calculates the amount of recoverable VAT. As a bank most of the VAT incurred relates to exempt banking services and is therefore an income statement expense or capitalised with the fixed asset to which it relates. Some VAT (relating to taxable transactions) is, however, recoverable and a PESM is the mechanism by which this recoverable portion is agreed with HMRC. A receivable is held on the balance sheet representing Metro Bank's calculations of recoveries relating to prior periods which are owed to Metro Bank by HMRC.

4 Operating segments

Metro Bank provides retail and corporate banking services. The Board considers the results of Metro Bank as a whole when assessing the performance of Metro Bank and allocating resources. Accordingly, Metro Bank has a single operating segment.

Metro Bank's revenue from external customers comprises of interest income from its retail and corporate banking services, which was £70.0 million in 2014 and £27.8 million in 2013.

Metro Bank operates solely in the UK and as such no geographical analysis is required.

5 Interest income

	2014	2013
	(£'000)	
	(unaudited)	
Investment securities	22,445	10,513
Loans and advances to customers	47,583	17,234
Interest income	70,028	27,747

6 Interest expense

	2014	2013
	(£'000)	
	(unaudited)	
Interest on customer accounts	(15,777)	(10,153)

	2014	2013
	(£'000)	
	(unaudited)	
Interest on repurchase agreements	(2,851)	(966)
Other	(1,993)	(396)
Interest expense	(20,621)	(11,515)

7 Fee and commission income

	2014	2013
	(£'000)	
	(unaudited)	
Service charges and other fee income	12,045	3,706
Safe deposit box income	3,167	1,699
ATM and interchange fees	864	86
Fee and commission income	16,076	5,491

8 Net gains on sale of investment securities

	2014	2013
	(£'000)	
	(unaudited)	
Net gains on sale of investment securities	5,122	6,508
	5,122	6,508

9 Other income

	2014	2013
	(£'000)	
	(unaudited)	
Gain on foreign currency transactions	3,832	1,865
Other	1,010	1,438
Other income	4,842	3,303

10 Operating expenses

	2014	2013
	(£'000)	
	(unaudited)	
Staff costs	(55,000)	(35,874)

	2014	2013
	(£'000)	
	(unaudited)	
Occupancy expense	(16,259)	(11,710)
Information technology costs	(11,019)	(7,800)
Marketing costs	(3,468)	(2,571)
Legal, regulatory and professional fees	(3,834)	(2,023)
Other expenses	(18,360)	(15,674)
Operating expenses	(107,940)	(75,652)

11 Staff costs

	2014	2013
	(£'000)	
	(unaudited)	
Wages and salaries	46,588	30,439
Social security costs	4,997	3,371
Other pension costs	2,517	1,672
Equity settled share based payments	898	392
	55,000	35,874

The average number of persons employed by Metro Bank in 2014 was 1,323 (2013: 878).

	2014	2013
	(£'000)	
	(unaudited)	
Client facing	917	628
Non-client facing	406	250
Total	1,323	878

12 Directors' emoluments

The remuneration of the Directors of the company was:

	2014	2013
	(£'000)	
	(unaudited)	
Emoluments (including benefits in kind)	1,387	1,282
Share based payment cost	292	180
Contributions to individual personal pension plans	64	60

	2014	2013
	(£'000) *(unaudited)*	
	1,743	1,522

During 2014 Metro Bank made contributions to individual personal pension plans in respect of 2 directors (2013: 2 directors).

The above amounts for remuneration include the following in respect of the highest paid director.

	2014	2013
	(£'000) *(unaudited)*	
Emoluments	415	447
Share based payment cost	152	91
Contributions to individual personal pension plan	41	39
	608	577

13 Pension costs and commitments

Metro Bank operates a defined contribution arrangement for staff. Metro Bank made payments amounting to £2,792,261 in 2014 (2013: £1,605,375) to colleagues' individual personal pension plans during the year.

14 Loss on ordinary activities before taxation

This is arrived at after charging/(crediting):

	2014	2013
	(£'000) *(unaudited)*	
Operating lease rental expense	11,420	7,986
Exchange differences	379	22
Fees payable by Metro Bank to PricewaterhouseCoopers		
For Metro Bank's statutory audit	372	191
For the audit of Metro Bank's subsidiaries	60	45
For tax compliance services	91	31
For tax advisory services	61	30

15 Taxation

	2014	2013
	(£'000)	
	(unaudited)	
Current tax:		
UK corporation tax	—	—
Adjustment in respect of prior years	—	—
Total current tax	—	—
Deferred tax:		
Current year	10,750	12,048
Adjustment in respect of prior years	(961)	(1,047)
Total deferred taxation	9,789	11,001
Total taxation	9,789	11,001

Total tax paid in relation to income during 2014 was £nil (2013: £nil).A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted. The entirety of the deferred tax asset recognised by Metro Bank is expected to be recovered after more than 12 months.

Analysis of deferred tax balance

	2014	2013
	(£'000)	
	(unaudited)	
Losses carried forward at 20% tax rate (2013: 20% tax rate)	46,134	36,715
Capital allowances	275	(96)
Total	46,409	36,619

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Unused tax losses	**Intangible assets**
	(£'000)	
	(unaudited)	
2014		
Assets	46,512	
Liabilities		(103)
At 1 January	36,734	(115)
Income statement	9,777	12
At 31 December	46,512	(103)
2013		
Assets	36,734	
Liabilities		(115)
At 1 January	25,505	—
Acquisition of subsidiary	233	(120)
Income Statement	10,996	5
At 31 December	36,734	(115)

16 Loans and advances to customers and banks

Total loans and advances to customers

	2014	**2013**
	(£'000)	
	(unaudited)	
Gross loans and advances to customers	1,595,785	754,340
Less: allowance for impairment	(5,439)	(3,282)
Net loans and advances to customers	1,590,346	751,058
Amounts include:		
Repayable on demand or at short notice	97,264	15,336

Credit quality of loans and advances to customers and banks

	2014	
	Loans and advances to customers	**Loans and advance to banks**
	(£'000) *(unaudited)*	
Neither past due or impaired	1,537,128	35,040
Past due but not impaired	54,897	—
Individually impaired	3,760	—
Total	1,595,785	35,040
Less: allowance for impairment	(5,439)	—
Total	1,590,346	35,040
Individually impaired	(2,821)	—
Portfolio impaired	(2,618)	—
Total	(5,439)	—

	2013	
	Loans and advances to customers	**Loans and advance to banks**
	(£'000) *(unaudited)*	
Neither past due or impaired	701,588	24,205
Past due but not impaired	49,227	—
Individually impaired	3,525	—
Total	754,340	24,205
Less: allowance for impairment	(3,282)	—
Total	751,058	24,205
Individually impaired	(1,970)	—
Portfolio impaired	(1,312)	—
Total	(3,282)	—

Movement in allowances for impairment

	2014	2013
	(£'000) *(unaudited)*	
Allowance for impairment at 1 January	(3,282)	(377)
Acquisition of subsidiary	—	(1,879)
Reversal of impairment	15	—
Increase in impairment allowance	(2,172)	(1,026)
Allowance for impairment at 31 December	(5,439)	(3,282)

Further information about the credit quality of our loans is included in Note 30.

Past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Loans and advances over 90 days past due may not be considered impaired where delays do not relate to credit issues. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	31 December 2014 *(£'000)* *(unaudited)*		
	Mortgages	**Corporate**	**Total**
		£'000	
Past due <30 days	8,010	38,402	46,412
Past due 31-60 days	—	1,500	1,500
Past due 61-90 days	—	1,744	1,744
Over 90 days	—	5,241	5,241
Total	8,010	46,887	54,897

	31 December 2013 *(£'000)* *(unaudited)*		
	Mortgages	**Corporate**	**Total**
		£'000	
Past due 30-60 days	17,237	18,734	35,971
Past due 61-90 days	2,915	1,073	3,988
Over 90 days	—	6,173	6,173
Total	20,152	25,980	46,132

Loans and advances to customers by category

	2014	2013
	(£'000)	
	(unaudited)	
Individual (retail customers):		
– Overdraft	26,812	10,379
– Credit cards	5,859	4,225
– Term loans	23,338	6,863
– Mortgages	825,135	370,495
Corporate:		
– Overdraft	15,017	6,808
– Credit cards	671	330
– Term loans	619,471	304,956
– Invoice finance	48,993	45,049
– Asset finance	30,489	5,235
Total loans to customer	1,595,785	754,340

17 Investment securities

	Level 1	Level 2	Total
		(£'000)	
		(unaudited)	
Fair values of investment securities held at fair value (recurring fair value measurement)			
As at 31 December 2014			
Financial investments: available for sale	241,127	1,063,283	1,304,410
As at 31 December 2013			
Financial investments: available for sale	214,168	482,266	696,434

The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The two levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

Reclassifications between categories

On 1 January 2014, £215.6 million of financial assets classified as available for sale were reclassified as held to maturity following the end of a prior tainting period. The carrying amount (including accrued interest) and fair value of the assets at 1 January 2014 and 31 December 2014 were as follows:

	Carrying amount	**Fair value**
	(£'000) *(unaudited)*	
At 1 Jan 2014	215,580	215,580
At 31 Dec 2014	213,899	217,331

No fair value gain or loss was recognised with respect to the reclassified assets in 2014; had these assets not been reclassified, a fair value gain of £1.8 million would have been recognised in other comprehensive income. The effective interest rates on available for sale assets reclassified to held to maturity at 1 January 2014 and 31 December 2014 ranged from 0.68% to 1.89%, with all cash flows expected to be recoverable.

No financial investments were classified as held to maturity at 31 December 2013. At 31 December 2014, financial investments classified as held to maturity were as follows:

	Carrying amount	**Fair value**
	(£'000) *(unaudited)*	
At 31 Dec 2014	307,041	313,851
At 31 Dec 2013	—	—

18 Intangible assets

	Goodwill	**Customer contracts**	**Software**	**Total**
		(£'000) *(unaudited)*		
2013				
Cost or valuation				
1 January 2013	—	—	12,902	12,902
Additions	—	—	9,483	9,483
Acquisition of subsidiary	4,140	600	—	4,740
31 December 2013	4,140	600	22,385	27,125

	Goodwill	Customer contracts	Software	Total
		(£'000)		
		(unaudited)		
Amortisation				
1 January 2013	—	—	1,957	1,957
Charge for the year	—	25	1,313	1,338
31 December 2013	—	25	3,270	3,295
Net book value	4,140	575	19,115	23,830
2014				
Cost or valuation				
1 January 2014	4,140	600	22,385	27,125
Additions	—	—	12,934	12,934
31 December 2014	4,140	600	35,319	40,059
Amortisation				
1 January 2014	—	25	3,270	3,295
Charge for the year	—	60	2,035	2,095
31 December 2014	—	85	5,305	5,390
Net book value	4,140	515	30,014	34,669

Intangible assets are amortised over their useful economic lives. The useful life is reviewed annually to determine whether events and circumstances continue to support the useful life assessment. Any change of estimate is accounted for prospectively with the effect of any change being recognised in the current and future periods.

The goodwill held in Metro Bank's balance sheet is tested at least annually for impairment. For the purposes of impairment testing the goodwill is allocated to the appropriate cash generating unit; of the total balance of £4.1 million (2013: £4.1 million), £4.1 million, or 100% of the total has been allocated to SME Invoice Finance.

The recoverable amount of SME Invoice Finance has also been based on a value-in-use calculation using pre-tax cash flow projections based on financial budgets and plans approved by management covering a five-year period and a discount rate of 14.3% Cash flows beyond the five‑year period are extrapolated using a growth rate of 3% The discount rate and growth rate are consistent with external sources of information reviewed by management. Based on these assumptions, the recoverable amount exceeded the carrying amount including goodwill by a significant amount. Management believes that any reasonably possible change in the key assumptions above would not cause the recoverable amount of SME Invoice Finance to fall below the balance sheet carrying value.

19 Property, plant and equipment

	Leasehold property	Land	Fixtures fittings and equipment	Computers	Total
			(£'000)		
			(unaudited)		
Cost or valuation					
1 January 2013	44,202	0	6,395	11,918	62,515
Acquisition of subsidiary	6	0	8	53	67
Additions	40,292	8,273	4,634	5,895	59,094
31 December 2013	84,500	8,273	11,037	17,866	121,676
Depreciation					
1 January 2013	3,337	0	1,565	4,534	9,436
Charge for the year	3,340	0	1,508	4,106	8,954
31 December 2013	6,677	0	3,073	8,640	18,390
Net book value	77,823	8,273	7,964	9,226	103,286

	Leasehold property	Land	Fixtures fittings and equipment	Computers	Total
			(£'000)		
			(unaudited)		
Cost or valuation					
1 January 2014	84,500	8,273	11,037	17,866	121,676
Additions	34,527	—	1,543	4,966	41,036
31 December 2014	119,027	8,273	12,580	22,832	162,712
Depreciation					
1 January 2014	6,678	—	3,073	8,640	18,391
Charge for the year	4,520	—	1,996	5,610	12,126
31 December 2014	11,198	—	5,069	14,250	30,517
Net book value	107,829	8,273	7,511	8,582	132,195

20 Future capital expenditure

At 31 December 2014 there was £14.1 million capital expenditure authorised but not contracted for or contracted but not provided for (31 December 2013: £4.9 million).

21 Prepayments and accrued income

	2014	2013
	(£'000)	
	(unaudited)	
Prepayments	7,878	3,342
Accrued income	5,295	1,285
VAT receivable	5,281	3,297
Other assets	429	356
Prepayments and accrued income	18,883	8,280

22 Other assets

	31 December	
	2014	2013
	(£'000)	
	(unaudited)	
Refundable collateral	6,070	4,563
Other	7,591	2,974
Total	13,661	7,537
Current portion	7,654	2,927
Non-current portion	6,007	4,610

23 Other liabilities

	31 December	
	2014	2013
	(£'000)	
	(unaudited)	
Trade creditors	1,895	2,988
Other taxation and social security costs	5,467	4,697
Accruals and deferred income	27,343	21,214
Other liabilities	14,140	723
Total	48,845	29,622

24 Called up share capital

A Ordinary shares

As at 31 December 2014, the Company had issued 59.2m A Ordinary shares of 0.0001 pence. In January 2014, the Company issued 7.69 million A Ordinary shares, for net consideration of £98.8 million. Related transaction costs of £1.16 million have been deducted from equity during the year.

As at 31 December 2013, the Company had issued 51,515,384 A Ordinary shares of 0.0001 pence. During the year, the Company issued 22.12 million A Ordinary shares, for net consideration of £284.30 million. Related transaction costs of £2.44 million have been deducted from equity during the year.

B Ordinary shares

As at 31 December 2014 and 31 December 2013, the bank had issued 1 million B Ordinary shares of 0.0001 pence to staff and non-executive directors.

B Ordinary Shares are part of the Company's long term incentive arrangements and give certain colleagues and non-executive Directors the opportunity to share in the value of Metro Bank to the extent that the value of Metro Bank at the time of a realisation event (being a quotation, sale or takeover offer) exceeds the hurdle price. The hurdle price is the initial placing proceeds of £75 million raised in March 2010, plus a sum equal to interest on that amount at the rate of 8% per annum (compounded annually) until the date on which a realisation event occurs (as adjusted by the Board in accordance with the Articles from time to time).

If the hurdle price is met at the time of a realisation event, the B Ordinary Shares will share in the value of Metro Bank in excess of the Hurdle Price on a pro rata basis with the A Ordinary Shares. This will be achieved by the conversion of an appropriate proportion of the B Ordinary Shares, by reference to the Hurdle Price, into Deferred B Shares with no value. On a quotation, sale or takeover offer, each B Ordinary Share will therefore be worth the same price as an A Ordinary Share (following the conversion of some of the B Ordinary Shares into Deferred B Shares). If the hurdle price is not met at the time of a realisation event, the B Ordinary Shares will convert into Deferred B Shares with no value.

	31 December	
	2014	2013
	(£'000) *(unaudited)*	
Called up ordinary share capital, issued and fully paid		
At beginning of year	—	—
Issued	—	—
At end of year	—	—

	31 December	
	2014	2013
	(£'000) *(unaudited)*	
Share premium account		
At beginning of year	530,463	246,155
Issued	98,841	284,308
At end of year	629,304	530,463

25 Share options

Metro Bank offers share options to directors and colleagues. The exercise price of the granted options is equal to the estimated market price of the shares at the date of the grant. Options generally vest over five years (although some earlier grants vested over three years) and have a contractual option term of ten years. Share options acquired via 'exchange' of some or all of the cash element of variable reward, vest immediately. Metro Bank has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows (rounded to the nearest thousand):

	2014		2013	
	(unaudited)			
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
At 1 January	644,000	10.9	334,000	9.7
Granted	907,000	13.4	345,000	12.0
Lapsed	(59,000)	12.5	(35,000)	9.9
At 31 December	1,492,000	12.3	644,000	10.9

Share options outstanding at the end of 2014 were as follows:

Expiry	Exercise price	Number	Vesting period	Vesting period Ends
07-Oct-21	£9.00	91,000	Three years	07-Oct-14
31-Oct-22	£10.00	205,000	Three years	31-Oct-15
11-Nov-23	£12.00	316,000	Five years	11-Nov-18
21-Mar-24	£13.00	98,000	Immediate	N/A
31-0ct-24	£13.50	782,000	Five years	31-0ct-19

98,000 share options were granted on 21 March 2014 at a price of £13.00 per share and expire on 21 March 2024. The fair value of these options is determined by using the Black-Scholes valuation model. The significant inputs into the model were the exercise price of £13.00, volatility of expected share price returns of 36%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 1.05% The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other High Street banks.

782,000 share options were granted on 31 October 2014 at a price of £13.50 per share and expire on 31 October 2024. The significant inputs into the model were the exercise price of £13.50, volatility of expected share price returns of 33%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 1.12% The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other High Street banks.

Share options outstanding at the end of 2013 were as follows:

Expiry	Exercise price	Number	Vesting period	Vesting period Ends
07-Oct-21	£9.00	91,000	Three years	07-Oct-14
31-Oct-22	£10.00	205,000	Three years	31-Oct-15

Expiry	Exercise price	Number	Vesting period	Vesting period Ends
11-Nov-23	£12.00	316,000	Five years	11-Nov-18

Expiry	Exercise price	Number	Vesting period	Vesting period Ends
07-Oct-21	£9.00	91,000	Three years	07-Oct-14
31-Oct-22	£10.00	205,000	Three years	31-Oct-15
11-Nov-23	£12.00	316,000	Five years	11-Nov-18
21-Mar-24	£13.00	98,000	Immediate	N/A
31-0ct-24	£13.50	782,000	Five years	31-0ct-19

316,000 share options were granted on 11 November 2013 at a price of £12.00 per share and expire on 11 November 2023. The fair value of options granted during the year is determined by using the Black-Scholes valuation model and was £1.6 million (2012: £0.6 million). The significant inputs into the model were share prices of £12.00, the exercise price shown above, volatility of expected share price returns of 46%, option life as disclosed above, a dividend yield of 0% and annual risk-free interest rate of 1.24% The volatility, measured at the standard deviation of expected share price returns, is based on statistical analysis of the share prices of other High Street banks.

The fair value of options granted during the year is determined by using the Black-Scholes valuation model and was £2.1 million (2013: £1.6 million).

The weighted average life of share options outstanding at 31 December 2014 was 9.1 years (2013: 9.4 years).

26 Reconciliation of movements in retained earnings

	2014	2013
	(£'000)	
	(unaudited)	
At 1 January	(122,298)	(77,863)
Loss for the year	(39,082)	(44,435)
At 31 December	(161,380)	(122,298)

27 Financial commitments

At 31 December 2014, Metro Bank had irrevocable undrawn loan facilities granted to retail and commercial customers of £147.8 million (2013: £144.2 million).

In addition Metro Bank has, as part of its retail and commercial operations, commitments of £101.4 million (2013: £42.6 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 by the bank, subject to notice requirements and given their nature are not expected to be drawn down to the full level of exposure.

28 Leasing commitments

Metro Bank leases various offices and stores under non-cancellable operating lease arrangements. The leases have various terms, escalation, renewal and rights. At the balance sheet date, future minimum payments under operating leases relating to land and buildings were as follows:

	2014	2013
	(£'000) *(unaudited)*	
Amounts falling due:		
Within one year	12,811	9,953
Between one and five years	50,867	39,027
After five years	216,306	126,075
Total	279,984	175,055

29 Financial instruments

Metro Bank's financial instruments primarily comprise customer deposits, loans to customers, cash held at banks and investment securities. All of these arise as a result of the bank's normal operations. Metro Bank does not enter transactions for speculative purposes and there are no instruments held for trading. From time to time, Metro Bank may use interest rate derivatives such as swaps to manage part of its interest rate risk.

The main risks arising from Metro Bank's financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk).

30 Credit risk

Credit risk is the risk of financial loss to Metro Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Metro Bank's loans and advances to customers and other banks, and investment debt securities.

The Chief Risk Officer is responsible for managing Metro Bank's credit risks through the following:

- Defining the Enterprise Risk Management structure and quantifying the Bank's Risk Appetite.
- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Limiting concentrations of exposure to counterparties and industries (for loans and advances and similar exposures) and by issuer, credit rating bans and market liquidity (for investment securities).

For details about our loans and advances to customers and the allowance for impairment/loss held by Metro Bank against those assets, please refer to note 16.

Metro Bank invests in high quality liquid debt instruments as required by Metro Bank's Treasury Instruments and Dealing Policy. The analysis below details the credit rating of the securities as at December 2014 and 31 December 2013. No allowance for impairment or loss was held against any of these assets at 31 December 2014 or 31 December 2013.

	31 December 2014	31 December 2013
	(£'000) *(unaudited)*	
Credit Rating		
AAA	1,036,477	377,804
AA- to AA+	273,235	247,410
A- to A+	143,847	45,874
Lower than A-	157,892	25,346
Total	1,611,451	696,434

Metro Bank has pledged £574.6 million (2013: £315.9 million) of AA/AAA rated securities as encumbered collateral which can be called upon in the event of default. £551.1 million of assets (2013: £313.6 million) are pledged to the Bank of England through the banks participation in the Funding for Lending Scheme ("**FLS**") to support the £465.4 million T-bills it has drawn down from the scheme. The remaining £23.5 million (comprised of Gilts) are pledged with market participants in the form of repo.

Collateral held and other credit enhancements, and their financial effect

Metro Bank holds collateral against loans and advances to customers in the form of mortgages over residential and commercial real estate and guarantees which Metro Bank has the ability to call on in the event of default of the borrower. The value of collateral has been limited to the principal amount outstanding to eliminate effects of over-collateralisation. The table below details the maximum credit risk exposure of Metro Bank and effects of collateral.

	Maximum Exposure	Collateral	Net exposure
		(£'000) *(unaudited)*	
At 31 December 2014			
Loans and advances to banks	35,040	—	35,040
Loans and advances to customers:			
– Loans to individuals (note 16)	881,144	(825,135)	56,009
– Loans to corporate entities (note 16)	714,641	(654,132)	60,509
Investment securities (note 17)	1,611,451	—	1,611,451
Other assets (note 22)	13,661	—	13,661
	3,255,937	(1,479,267)	1,776,670
Credit risk exposures relating to off-balance sheet items are as follows:			
Loan commitments and other credit related obligations	249,216	—	249,216
Total	3,505,153	(1,479,267)	2,025,886

At 31 December 2013	Maximum Exposure	Collateral	Net exposure
		(£'000) *(unaudited)*	
Loans and advances to banks	24,205	—	24,205
Loans and advances to customers:			
- Loans to individuals (note 16)	391,962	(312,235)	79,727
- Loans to corporate entities (note 16)	362,378	(243,361)	119,017
Investment securities (note 17)	696,434	—	696,434
Other assets (note 22)	11,800	—	11,800
Total	1,486,779	(555,596)	931,183
Credit risk exposures relating to off-balance sheet items are as follows:			
Loan commitments and other credit related obligations	193,434	—	193,434
Total	1,680,213	(555,596)	1,124,617

As shown above, 47 per cent (2013: 51%) of the total maximum exposure is derived from loans and advances to banks and customers, and 46% (2013: 46%) represents investments in high quality debt securities.

Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to customer by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

	31 December	
	2014	**2013**
	(£'000) *(unaudited)*	
LTV ratio		
Less than 50%	314,059	86,308
51-70%	415,848	157,222
71-90%	95,228	126,965
91-100%	—	—
More than 100%	—	—
Total	825,135	370,495

Loans and advances to corporate customers

The general credit worthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and Metro Bank generally requests that corporate borrowers provide it. Metro Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Metro Bank monitors concentrations of credit risk by industry sector for commercial term exposure. Metro Bank risk appetite is set at the beginning of every year and monitored as part of the Board committee.

	2014		2013	
	Gross balance	**Concentration**	**Gross balance**	**Concentration**
	(£'000)	*%*	*(£'000)*	*%*
		(unaudited)		
Real estate (develop, buy and sell)	340,630	55%	177,047	59%
Legal, Accountancy & Consultancy	68,015	11%	10,005	3%
Health & Social Work	53,065	9%	15,285	5%
Hospitality	39,749	6%	27,291	9%
Investment & Unit Trusts	23,052	4%	351	0%
Retail	13,461	2%	11,243	4%
Real estate (management of)	8,575	1%	1,047	0%
Recreation, cultural & sport	6,769	1%	3,806	1%
Construction	8,698	1%	6,984	2%
Education	4,184	1%	2,744	1%
Other	53,273	9%	49,153	16%
At 31 December	619,471	100%	304,956	100%

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to Metro Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 64% (2013: 54%) of the debt securities are AAA rated and 17% (2013: 35%) are AA rated;
- 93% (2013: 74%) of loans and advances to customers are backed by collateral; and
- Over 99% (2013: 99%) of the loans and advances portfolio is considered to be unimpaired.

31 Liquidity risk

Liquidity risk is the risk that Metro Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Metro Bank's board of directors sets Metro Bank's risk appetite and policy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Asset and Liability Management Committee (ALCO). The treasury function manages Metro Bank's liquidity position on a day-to-day basis under the oversight of the CFO and ALCO. Metro Bank's approach is to ensure that it can meet payments as they fall due – both in normal conditions and in the event of a severe liquidity stress, and that it can survive a severe liquidity stress event and continue as a going concern. The key elements of Metro Bank's liquidity strategy are as follows:

- Building a franchise that has a stable deposit funding base, free of short term unsecured wholesale funding;
- Maintaining, at all times, a stock of liquid assets that are of sufficient quality and quantity so as to be able to withstand these liquidity stress scenarios;
- Monitoring liquidity risk exposures on an ongoing basis under a variety of market wide and idiosyncratic liquidity stress scenarios; and
- Maintaining a diversified funding base.

Expected maturity dates of Metro Bank's financial instruments do not differ significantly from the contract dates except for retail deposits. These are repayable on demand or at short notice on a contractual basis. In practice, however, these instruments provide long term stable funding for Metro Bank's operations and liquidity needs because of the stable deposit nature of Metro Bank's business model.

The tables below set out the maturity structure of Metro Bank's financial instruments, which categorises liabilities by their earliest possible contractual maturity date; this differs from the behavioural maturity characteristics of the deposit base in both normal and stressed conditions, as the behavioural maturity is much longer than the contractual maturity.

	31 December 2014							
	Repayable on demand	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**No contractual maturity**	**Total**
				(£'000) *(unaudited)*				
Cash and balances at central banks	180,630	—	—	—	—	—	—	180,630
Loans to banks	35,040	—	—	—	—	—	—	35,040
Loans to customers	-	135,238	81,778	155,845	1,076,924	312,266	53,250	1,815,301
Investments	—	18,273	6,669	80,473	1,321,792	327,844	—	1,755,051
Total financial assets	215,670	153,511	88,447	236,318	2,398,716	640,110	53,250	3,786,022
Other assets	—	—	—	—	—	—	—	—
Total assets	215,670	153,511	88,447	236,318	2,398,716	640,110	53,250	3,786,022
Customer accounts	(732,278)	(1,663,068)	(107,496)	(257,616)	(91,552)	—	(20,298)	(2,872,308)
Repurchase agreements	—	(205,803)	(40,179)	(26,935)	—	—	—	(272,917)
Other liabilities	—	—	—	—	—	—	—	—
Total financial liabilities	(732,278)	(1,868,871)	(147,675)	(284,551)	(91,552)	—	(20,298)	(3,145,225)
Capital	—	—	—	—	—	—	—	—
Total liabilities	(732,278)	(1,868,871)	(147,675)	(284,551)	(91,552)	—	(20,298)	(3,145,225)
Cumulative liquidity gap	(516,608)	(2,231,968)	(2,291,196)	(2,339,429)	(32,265)	607,845	—	—

	31 December 2013							
	Repayable on demand	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**Over 5 years**	**No contractual maturity**	**Total**
				(£'000) *(unaudited)*				
Cash and balances at central banks	231,496	—	—	—	—	—	7,483	238,979
Loans to banks	24,205	—	—	—	—	—	—	24,205

	31 December 2013							
	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No contractual maturity	Total
				(£'000) *(unaudited)*				
Loans to customers	23,615	80,854	32,574	56,530	395,985	164,782	(3,282)	751,058
Investments	—	301	4,749	34,374	487,065	169,945	—	696,434
Total financial assets	279,316	81,155	37,323	90,904	883,050	334,727	4,201	1,710,676
Other assets	—	—	—	—	—	—	179,552	179,552
Total assets	279,316	81,155	37,323	90,904	883,050	334,727	183,753	1,890,228
Customer accounts	(909,627)	(110,393)	(55,824)	(169,980)	(69,565)	—	—	(1,315,389)
Repurchase agreements	—	(34,890)	(54,193)	(54,733)	—	—	—	(143,816)
Other liabilities	—	—	—	—	—	—	(29,622)	(29,622)
Total financial liabilities	(909,627)	(145,283)	(110,017)	(224,713)	(69,565)	—	(29,622)	(1,488,827)
Capital	—	—	—	—	—	—	(401,401)	(401,401)
Total liabilities	(909,627)	(145,283)	(110,017)	(224,713)	(69,565)	—	(431,023)	(1,890,228)
Cumulative liquidity gap	(630,311)	(694,439)	(767,133)	(900,942)	(87,457)	247,270	—	—

32 Market risk

Market risk is the risk that changes in market prices, such as interest rates or prices of investment securities, will affect Metro Bank's income or the value of its holdings of financial instruments. The objective of Metro Bank's market risk management strategy is to manage and control market risk exposures within acceptable parameters to ensure Metro Bank's solvency while optimising the return on risk.

Investment price risk

Metro Bank does not undertake proprietary trading activities and holds only high grade investment securities which have been approved by ALCO. Management monitors exposures to investment price risk on a regular basis. Movements in investment value are monitored on a regular basis. In the event of a material detrimental movement in either the value or the credit quality of an asset, ALCO is advised and it will decide whether to retain or dispose of the asset.

Changes in the value of treasury assets classified as available for sale are taken to the other comprehensive income, and under CRD IV directly reduce Metro Bank's capital resources where negative. The table below is a projection of the impact on the market value of available for sale investment securities held at 31 December, 2014 and 2013, of a plus and minus 1.00% and 2.00% parallel shift in the yield curve (disregarding any interest rate floors). Stressed fair values are calculated using the same methodology as Metro Bank uses for calculating current fair values on its available for sale investments. Sensitivity analysis is performed only for the fixed rate assets in the available for sale portfolio; floating rate assets are excluded as they are unaffected by changes in the yield curve.

	200bp decrease	100bp decrease	100bp increase	200bp increase
		(£'000) *(unaudited)*		
Sensitivity of prices of investment securities to changes in yield curves				
At 31 December 2014	15,176	10,659	(10,821)	(21,202)

	200bp decrease	100bp decrease	100bp increase	200bp increase
		(£'000)		
Sensitivity of prices of investment securities to changes in yield curves				
At 31 December 2013	22,674	12,071	(11,752)	(22,911)

Interest rate risk

Metro Bank is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps which arise due to differences in time of the interest rate repricing of its financial instrument assets and liabilities. Metro Bank manages this risk by matching the timing of the interest rate repricing to within Metro Bank's interest rate risk appetite. Metro Bank seeks to do so primarily through the use of natural hedges, but may use derivatives for this purpose from time-to-time.

Metro Bank manages this risk within limits set and approved by the Board. The limits are monitored daily by Risk, reported monthly to the ALCO, and noted by the Risk Oversight Committee and the Board.

Limits are set for the market value of equity (MVoE) and net interest income (NII). MVoE shall not drop more than £6m based on the worse of a +200bp or -200bp instantaneous symmetrical parallel shock to interest rates, and one-year NII shall not drop more than £4.5m based on the same shock.

Furthermore, limits are set for asymmetrical movements between LIBOR and the Bank of England Base Rate. An increase in LIBOR of 83bps or a decrease of 29bps, each relative to the Base Rate, must not cause one-year NII to drop by more than £4.5m.

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 following is an analysis of Metro Bank's sensitivity to an increase or decrease in market interest rates, assuming a constant financial position.

	200bp increase	200bp decrease (floored at zero)
	(£'000) *(unaudited)*	
Sensitivity of market value of equity to interest rate movements		
2014		
At 31 December	161	5,657
Average for the year	(3,159)	7,182
Maximum for the year	1,551	12,335
Minimum for the year	(5,608)	4,987

	200bp increase	200bp decrease (floored at zero)
	(£'000) *(unaudited)*	
2013		
At 31 December	11,170	3,628
Average for the year	609	9,399
Maximum for the year	11,170	13,786
Minimum for the year	(3,628)	3,628

Large values at December 2013 year-end were due to the share issue.

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period

	200bp increase	200bp decrease (floored at zero)
2014		
At 31 December	(1,830)	(40)
Average for the year	(1,667)	4,689
Maximum for the year	(900)	9,160
Minimum for the year	(2,630)	(440)
2013		
At 31 December	8,170	(2,160)
Average for the year	4,604	(1,370)
Maximum for the year	8,170	(1,070)
Minimum for the year	3,300	(2,160)

	+83bps LIBOR vs BBR	-29bps LIBOR vs BBR
	(£'000) *(unaudited)*	
Sensitivity of projected one-year net interest income to movements in the spread from Bank Base Rate to LIBOR		
2014		
At 31 December	5,060	(1,750)
Average for the year	3,229	(1,119)
Maximum for the year	5,060	(750)
Minimum for the year	2,160	(1,750)

	+83bps LIBOR vs BBR	-29bps LIBOR vs BBR
	(£'000) (unaudited)	
2013*		
At 31 December	1,400	(480)
Average for the year	1,036	(360)
Maximum for the year	1,400	(260)
Minimum for the year	740	(480)

*Metro Bank began to calculate this projection in August 2013 and results are reported from then on.

Interest rate movements affect reported equity in the following ways:

- Retained earnings - increases or decreases in net interest income and in fair values of derivatives reported in profit or loss.

33 Fair value of financial instruments

The fair values of financial instruments are based on market prices where available, or are estimated using other valuation techniques. Where they are short term in nature or re-price frequently, fair value approximates to carrying value. Apart from investment securities all other assets and liabilities are deemed to have a fair value hierarchy of level 3. Level 3 is defined as – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

		Fair value - valuation techniques			
	Carrying value	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total fair value
			(£'000) (unaudited)		
31 December 2014					
Assets					
Cash and balances with the Bank of England	180,630	—	—	180,630	180,630
Loans and advances to banks	35,040	—	—	35,040	35,040
Loan and advances to customers	1,590,346	—	—	1,588,309	1,588,309
Investment securities (Note 17)	1,611,451	417,332	1,201,017	—	1,618,349
Liabilities					
Deposits from customers	2,866,631	—	—	2,866,631	2,866,631
Repurchase agreements	282,544	—	—	282,544	282,544

31 December 2013

Assets

		Fair value - valuation techniques			
	Carrying value	**Quoted market price Level 1**	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total fair value**
			(£'000) *(unaudited)*		
Cash and balances with the Bank of England ..	238,979	—	—	238,979	238,979
Loans and advances to banks...........................	24,205	—	—	24,205	24,205
Loan and advances to customers	751,058	—	—	750,001	750,001
Investment securities (Note 17)	696,434	214,168	482,266	—	696,434
Liabilities					
Deposits from customers	1,315,389	—	—	1,298,050	1,298,050
Repurchase agreements	143,816	—	—	143,620	143,620

Information on how fair values are calculated for the financial assets and liabilities noted above are explained below:

(a) *Cash and balances with the Bank of England/Loans and advances to banks*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

(b) *Loans and advances to customers*

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses if considered material.

(c) *Investment securities*

The fair value of investment securities is based on estimations using market prices and earnings multiples of quoted securities with similar characteristics.

(d) *Deposits from customers*

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

(e) *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.

34 Related party transactions

Key management personnel

Metro Bank's key management personnel, and persons connected with them, are considered to be related parties for disclosure purposes. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Metro Bank. The

Directors and members of the Executive Committee are considered to be the key management personnel for disclosure purposes.

Key management compensation

Total compensation for key management personnel for the year by category of benefit was as follows:

	2014	2013
	(£'000)	
	(unaudited)	
Salaries and other short-term benefits	3,102	2,973
Share based payment cost	514	286
Contributions to pension arrangements	176	167
	3,792	3,426

Banking transactions with key management

Metro Bank provides 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 2014 and 31 December 2013 were as follows:

	2014	2013
	(£'000)	
	(unaudited)	
Loans payable to Metro Bank		
Loans outstanding at 1 January	898	739
Loans issued during the year	1,402	482
Loan repayments during the year	(32)	(323)
Loans outstanding at 31 December	2,268	898
Interest expense on loans payable to Metro Bank	61	29

There were six (31 December 2013: four) loans outstanding at 31 December 2014 totalling £2.3 million (31 December 2013: £0.9 million). These loans are residential mortgages provided on normal commercial terms. The maximum loan balance outstanding during the year was £2.3 million (31 December 2013: £1.4 million).

In addition to the loans detailed above Metro Bank has issued credit cards and granted overdraft facilities on current accounts to directors and key management personnel. These transactional accounts are excluded from the balances.

Deposit balances held by key management personnel at 31 December 2014 totalled £3.9 million (31 December 2013: £5.3 million).

Other transactions with related parties

The following transactions were carried out with related parties:

	2014	2013
	(£'000)	
	(unaudited)	
Purchases of services		
– Entity connected to key management personnel	2,602	2,431
– Amounts outstanding as at 31 December owed by Metro Bank..	165	123

Architecture, design and branding services are provided to Metro Bank by InterArch, Inc., ("**InterArch**") a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II the Non-Executive Chairman.

In order to ensure that the terms of the InterArch arrangements are consistent with those that could be obtained from an independent third party and in accordance with the Articles, the contractual arrangements with InterArch are subject to periodic review by the Company's Audit Committee using periodic benchmarking reviews conducted by authoritative independent third parties. The Audit Committee have concluded the arrangements are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an independent third party.

Architectural Design Services

InterArch provide various architectural design services to Metro Bank, including pre-design, architectural, interior design, facilities co-ordination, construction management, signage, security design and layout. The fee structure for each project is based on a fixed percentage of projected hard costs. Certain additional services are provided on an hourly basis. The current agreement terminates on 31 December 2017 unless terminated prior to that in accordance with its terms.

Branding, Marketing and Advertising

InterArch also provides branding, marketing and advertising services to Metro Bank. A further extension to the contract for these services (to the end of 2016) is expected to be signed shortly on the same terms to the previous agreement between the parties.

IPR Agreement

On 21 June 2010, the Company entered into an agreement with InterArch in which InterArch agreed to transfer and assign to the Company all UK intellectual property rights which arise from InterArch's provision of services to the bank.

35 Capital management

Capital is held by Metro Bank to protect its depositors, cover its inherent risks, and provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, Metro Bank considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

Metro Bank prepares an annual Internal Capital Adequacy Assessment Process document that sets out how Metro Bank identifies and manages the key risks to which it is exposed and to details Metro Bank's capital requirements, capital resources, and capital adequacy over the planning period.

Metro Bank produces regular reports on the current and forecasted level of capital, as well as the results of stress scenarios, to the Board and the Executive Committee (chaired by the Chief Executive

Officer). The key assumptions and risk drivers used to create the stress tests are regularly monitored and reported.

Metro Bank manages 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. Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements. During the year Metro Bank has complied with all externally imposed capital requirements to which it is subject.

	2014	2013
	(£'000) *(unaudited)*	
Tier 1 capital		
Ordinary share capital	—	—
Share premium	629,304	530,463
Retained earnings	(161,380)	(122,298)
Intangible assets	(34,669)	(23,830)
Deferred tax asset	(46,409)	(36,619)
	386,846	347,716
Tier 2 capital		
Available for sale reserve	(4,314)	(7,520)
	(4,314)	(7,520)
Total regulatory capital	382,532	340,196

36 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the period.

	2014	2013
	(£'000) *(unaudited)*	
Loss attributable to ordinary equity holders of Metro Bank	(39,082)	(44,435)
Weighted average number of ordinary shares in issue (thousands)	58,565	29,400
Basic loss per share (pence)	(0.67)	(1.51)

The ordinary shares in issue used in the denominator of the basic loss per share calculation are the A ordinary shares. The B ordinary shares are excluded from the calculation on the basis that prior to a realisation event (quotation, sale or takeover offer), the shares have no entitlement to dividends or other distributions of Metro Bank.

Diluted loss per share has been calculated based on the same loss attributable to ordinary equity holders of Metro Bank and weighted average number of ordinary shares in issue after the effect of adjustment for potential dilutive ordinary shares, which comprise share options granted to colleagues. Potential ordinary shares should only be treated as dilutive, when their conversion to ordinary shares results in a reduction in earnings per share or an increase in loss per share. As Metro Bank has a loss attributable to ordinary equity holders of Metro Bank in 2014 and 2013, for these years, the share options would be antidilutive, as they would reduce the loss per share. Therefore, they are disregarded in the calculation of dilutive earnings per share. However, the share options could potentially be dilutive in the future.

	2014	**2013**
	(£'000) *(unaudited)*	
Loss attributable to ordinary equity holders of Metro Bank	(39,082)	(44,435)
Weighted average number of ordinary shares in issue (thousands)	58,565	29,400
Diluted loss per share (pence)	(0.67)	(1.51)

37 Business combinations

On 31 July 2013, Metro Bank acquired 100% of the share capital of SME Invoice Finance Limited ("**SMEIF**") for £15 million. The acquisition provides Metro Bank the ability to compete in the SME market by offering comprehensive invoice finance, factoring and asset finance capability.

Goodwill arising on acquisition was £4.1 million. This represents the value of the consideration in excess of the recognised tangible assets, liabilities and intangible assets attributable to acquired customer base and economies of scale expected from combining the operations of the group and SMEIF.

Under IFRS 3, businesses are required to place a fair value on any additional intangible assets as identified at the point of acquisition. The fair value of future discounted cash-flows have been derived from existing customer contracts. The fair value of customer contracts is £0.6 million.

The following table summarises the consideration paid for SMEIF, the fair value of assets acquired and liabilities assumed.

	£'000 *(unaudited)*
Consideration at date of acquisition 31 July 2013	
Cash payment for 100% holding...	15,000
Total consideration for 100% holding	15,000
Recognised amounts of identifiable assets transferred and liabilities assumed at fair value	
Trade debtors subject to financing	45,757
Investment in finance agreements	2,709
Customer contracts..	600
Tangible fixed assets	73
Other current assets	961
Bank loans and overdrafts	(38,326)
Other current liabilities	(914)
Total identifiable net assets..	10,860
Goodwill arising on acquisition...	4,140

Acquisition-related costs of £0.5 million have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2013.

The contingent consideration arrangement required Metro Bank to pay a price of £15 million for the entire share capital of SMEIF subject to adjustment under a locked box mechanism. This was be based on the management accounts balance sheet as at 31 July 2013. £2 million of the purchase price was paid into an escrow account as follows:-

- £0.5 million, to cover any shortfall in the net asset value below £10.5 million as at the locked box date. Subsequent to the 2013 year end this has been released from the escrow account.
- £1.5 million, to cover any credit losses for 24 months following Completion above 0.5% for business written prior to completion of the transaction.

38 Investments in subsidiaries

Metro Bank had the following subsidiaries at 31 December 2014 and 31 December 2013:

Name	**Country of Incorporation and place of business**	**Nature of business**	**Proportion of ordinary shares directly held by parent (%)**	**Proportion of ordinary shares held by Metro Bank (%)**
SME Invoice Finance Limited	UK	Invoice finance and factoring	100	
SME Asset Finance Limited	UK	Asset finance		100

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

39 Ultimate controlling party

The parent entity is Metro Bank PLC. No single entity or individual has a controlling interest in Metro Bank PLC parent entity.

PART VIII:
OPERATING AND FINANCIAL REVIEW

The following discussion summarises the significant factors and events affecting the results of operations and the financial condition of Metro Bank for the years ended 31 December 2013, 2014 and 2015 and should be read in conjunction with "Presentation of Financial and Other Information – Historical financial information, Part VII: "Historical Financial Information" and the information relating to Metro Bank's business included elsewhere in this Private Placement Memorandum. Investors should read the whole of this Private Placement Memorandum and not just rely upon summarised information.

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

Overview

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

Metro Bank opened its first store in Holborn, central London, in July 2010, and since that time has established a strategically located network of 40 stores (not 'branches') across London and the surrounding commuter areas, with approximately 655,000 customer accounts, £5,108 million in deposits from customers and £3,549 million of gross loans and advances to customers as of 31 December 2015. Driven by and reflective of its customer service-led model and culture, Metro Bank's "stores" are open seven days a week, early morning until late. Metro Bank also supports 24/7 telephony, digital and mobile banking, and offers simple products and fair pricing.

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

A ATTEND to every detail

M MAKE every wrong right

A ASK if you're not sure – *Bump it up*!

Z ZEST is contagious – *Share it*!

E EXCEED expectations

I INSPIRE colleagues to create *FANS*!

N NURTURE colleagues so they grow

G GAME CHANGE because this is a Revolution

In order to cultivate a culture that supports these values Metro Bank seeks first to hire "colleagues" (not "staff") with the right attitude and train them with the appropriate skills to AMAZE its customers. These colleagues attend Metro Bank University throughout their careers to learn and enhance the skills necessary to provide a customer service experience that matches or exceeds that of best-in-class specialist retailers.

Metro Bank's superior customer experience is supported by a scalable, innovative and flexible end-to-end technology infrastructure that equips Metro Bank's colleagues to focus on creating an "AMAZE(ING)" customer experience. For example, the speed at which Metro Bank opens accounts is believed to be industry-leading by the Directors: following a robust 'Know Your Customer' process (which includes anti-money laundering, anti-fraud and, where appropriate, credit checks), Metro Bank was able to open 77% of accounts for new-to-bank customers in its Retail Segment within 15 minutes in 2015, and a further 10% within 20 minutes. In addition, Metro Bank's emphasis on delivery at the point-of-sale means that these new-to-bank customers leave a Metro Bank store with a fully functioning current account (including access to telephony, internet and mobile banking, with customers assisted in downloading the Metro Bank mobile app in store at the time of application) and an activated contactless debit card printed in store, for which they set their own pin number, thus requiring no repeat store visits or mailings to complete their account opening process. Metro Bank's existing customers are also typically able to open additional accounts in four to six clicks (depending on the product) on Metro Bank's website. Furthermore, customers have 24/7 access to a London-based contact centre staffed by Metro Bank colleagues that utilises real-time, skill-based routing for customer calls, removing the need for an IVR system, simplifying the call experience and saving time for customers by quickly directing their call to a colleague well qualified to deal with their request.

Metro Bank has also invested heavily in its "back office" infrastructure, enhancing operational performance and resilience, including by implementing straight through processing and single customer view functionalities, leading cybersecurity controls, including web application firewalls to protect its external websites, malware detection tools to protect data, and a 24/7 managed security service to monitor its IT infrastructure.

Adding to its offering, Metro Bank entered into two new partnerships in 2015 with other brands that share Metro Bank's zeal for great service: an innovative partnership with peer-to-peer lender Zopa that allows Metro Bank to originate loans through their platform and an exclusive co-branded banking partnership with St. James's Place.

As of 31 December 2015, Metro Bank had total assets and liabilities of £6,151 million and £5,741 million, respectively.

Segmentation

For the purposes of its financial reporting, Metro Bank does not segment its business. References elsewhere in this Private Placement Memorandum to Metro Bank's Retail and Commercial Segments refer to conventions that Metro Bank uses operationally to describe its business and are not reflected or discussed in this Part VIII: "Operating and Financial Review" or in Part VII: "Historical Financial Information".

Key Factors Affecting Results of Operations

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

Deposit base and funding

Metro Bank is primarily funded by deposits from its commercial and retail customers and capital provided by shareholders and does not borrow money from the wholesale funding markets (except for repurchase agreements used to enable the bank to utilise the FLS and to manage short-term liquidity). Metro Bank has expanded rapidly since its launch in July 2010, from four stores and 9,000 customer accounts as of 31 December 2010 to 40 stores and approximately 655,000 customer accounts as of 31 December 2015. As a result, Metro Bank's deposits from customers increased from £1,315 million as of 31 December 2013 to £5,108 million as of 31 December 2015.

The following tables set out a breakdown of Metro Bank's deposits by category and yield as of 31 December 2013, 2014 and 2015:

	As of 31 December		
	2013	**2014**	**2015**
		(£'000,000) *(unaudited)*	
Commercial Segment		1,418	2,696
Retail Segment (excluding Pensions)	603	1,045	1,845
Pensions	45	404	566
Total deposits	**1,315**	**2,867**	**5,108**

	As of 31 December		
	2013	**2014**	**2015**
		(£'000,000) *(unaudited)*	
Demand – non-interest bearing	425	857	1,380
Demand – interest bearing	487	1,375	2,123
Fixed term	403	635	1,605
Total deposits	**1,315**	**2,867**	**5,108**

Deposits have been and are expected to continue to be driven by the expansion of Metro Bank's store network and the bank's increasing use of the online channel, the increase of its Commercial Segment customer base, business bank accounts and niches such as cash deposits from pension providers and client monies from the legal and accounting sectors.

The ability of Metro Bank to expand its store network depends on a number of factors, including its ability to identify suitable prime sites, negotiate appropriate leases, obtain required planning permissions and successfully bring new stores into operation. The increase in stores and Retail Segment customers during the periods under review resulted in Metro Bank's deposits from Retail Segment customers rising from £649 million as of 31 December 2013 to £2,411 million as of 31 December 2015. The expansion of Metro Bank's online channel, in particular its ability to introduce online current account opening services, is dependent on requisite investment and IT infrastructure. Pension fund deposits, in particular, have also grown significantly, from £46 million as of 31 December 2013 to £566 million as of 31 December 2015.

The growth of Metro Bank's Commercial Segment deposit base is primarily driven by its ability to increase its commercial, charity and local authority sector customer bases, as well as its ability to continue to develop specialised business lines such as SSAS deposit solution accounts and client monies holding accounts for solicitors and other professional services organisations. These specialised business lines are important to Metro Bank's Partnership Banking business line, which has contributed significantly to the increase in Metro Bank's deposits from Commercial Segment customers, which rose from £667 million as of 31 December 2013 to £2.7 billion as of 31 December 2015.

In addition to its customer deposit base, Metro Bank drew down £465 million under the initial FLS tranche. In 2016, Metro Bank expects to be provided with an additional allowance under the second FLS tranche (the

"**FLS Extension**"). Under the applicable terms of the FLS Extension, Metro Bank expects it would be able to draw down on any additional allowance, the available balance of which decreases 25% every six months over the period beginning 1 January 2016, until the end of 2017. If provided with an additional allowance under the FLS Extension, Metro Bank intends to draw down a portion of its available allowance, which it will use to further support its Commercial Segment lending activities, and intends to secure this drawdown by using a portfolio of its prime residential mortgages as collateral. Repayments for FLS funding are due four years after the relevant drawdown date, and Metro Bank has not yet made any repayments.

Loan portfolio growth

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

The table below sets forth a breakdown of Metro Bank's gross loans and advances to customers by segment.

	As of 31 December		
	2013	2014	2015
		(£'000,000) *(unaudited)*	
Commercial Segment	362	715	1,273
Retail Segment	391	881	2,275
of which:			
Residential mortgage	370	825	2,156
Consumer and other	21	56	119
Total gross loans and advances to customers	**754**	**1,596**	**3,549**

Metro Bank had an LTD Ratio of 57%, 56% and 69% for the years ended 31 December 2013, 2014 and 2015, respectively. An increasing LTD Ratio is a significant driver of net interest income, and Metro Bank has targeted having an LTD Ratio of 80% by the end of 2020.

Residential mortgages and Commercial Segment loans, which are secured on property or other tangible assets, account for almost the entire loan book. In the periods under review, gross loans and advances to customers increased by 371%, from £754 million as of 31 December 2013 to £3,549 million as of 31 December 2015, primarily due to volume-driven growth and the acquisition of a £344 million first charge prime residential mortgage loan portfolio.

Net interest income

Net interest income is the largest component of Metro Bank's total operating income, accounting for 51%, 65% and 74% of total operating income in the years ended 31 December 2013, 2014 and 2015, respectively. Metro Bank's net interest income is affected by a number of factors, including, in particular, the size of its loan and investment portfolios, the level of customer deposits, product mix and the interest rates that Metro Bank pays on its sources of funding and the interest that it earns on its loans and investments.

Metro Bank is a deposit led bank, and its deposit base has grown significantly, from £1,315 million as of 31 December 2013 to £5,108 million as of 31 December 2015. This growth has been driven by the expansion of Metro Bank's stores and the increase in customer numbers, which increased from 24 and 275,000, respectively, as of 31 December 2013 to 40 and 655,000, respectively, as of 31 December 2015, as well as its ability to expand specialist deposit businesses (such as deposits from pension providers).

Metro Bank's interest-bearing liabilities consist principally of savings deposits from customers (it typically does not pay interest on current accounts). Furthermore, Metro Bank's deposit base historically has been, and is expected to be, significantly derived from Commercial Segment customers (which, including pension deposits represented 64% of Metro Bank's deposits from customers as of 31 December 2015), which typically earn lower interest rates on their deposits than Retail Segment customers.

Metro Bank's interest-earning assets consist principally of residential mortgages, Commercial Segment lending and consumer and other lending (consisting primarily of unsecured current account overdrafts, credit card receivables and personal loans, including those originating from third-party platforms), as well as investment securities. These assets have grown significantly in the periods under review, as Metro Bank's store network and customer base have grown and its customers have increased their demand for its credit products. As of 31 December 2015, residential mortgages, Commercial Segment lending and unsecured consumer lending represented 61%, 36% and 3%, respectively, of Metro Bank's loan and advances to customers.

Metro Bank typically earns the highest average rate of interest on its consumer and other loans due to the higher credit risk associated with these products, while residential mortgages typically earn the lowest average rate of interest, which reflects the lower risk profile of the product, as well as the generally competitive nature of the marketplace. The effect of the FLS having provided substantial amounts of liquidity to the UK mortgage market has also had a recent impact. The average interest rate charged on Metro Bank's Commercial Segment loan portfolio exceeds that of its residential mortgage portfolio, due in part to the specialised SME focused customer base that it targets, which often has less access to competitively priced lending opportunities. Metro Bank is actively seeking to increase its consumer and other lending portfolio, and the Directors believe that Metro Bank's customer relationship-focused lending strategy, supported by its conservative underwriting credit processes, will support the growth of this portfolio in the medium term while appropriately managing its credit risk.

Metro Bank's net interest income is also affected by changes in interest rates, as most of Metro Bank's interest-bearing assets and liabilities are variable rate, with reference to the Bank of England's base rate, which, during the periods under review, has remained at historically low rates. See Part II: "Risk Factors – Risks relating to the Macroeconomic Environment in which Metro Bank operates – Metro Bank faces risks associated with interest rate levels and volatility". For the year ended 31 December 2015, Metro Bank's average cost of deposits was 0.82%, compared to 0.90% and 1.18% for the years ended 31 December 2014 and 2013, respectively, and the average interest yield on its loans was 4.01% for the year ended 31 December 2015, compared to 4.60% and 4.73% for the years ended 31 December 2014 and 2013, respectively. Interest rates in the periods under review were at historical lows.

Residential mortgages

As of 31 December 2013, 2014 and 2015, Metro Bank's residential mortgage portfolio was £371 million, £825 million and £2,156 million, respectively. Metro Bank's residential mortgage portfolio has grown due to an increase in the store network and customers, as well as the expansion of its intermediary network across the UK and the acquisition of a £344 million first charge prime residential mortgage portfolio in July 2015. It may continue to consider other opportunities to increase the size of its loan portfolio through similar acquisitions. Metro Bank has employed, and intends to continue in the future to target, a combination of a store-based origination combined with an intermediary-led mortgage lending model. Metro Bank has access to a wide range of specialist lending intermediaries and brokers, having expanded its mortgage intermediary network across the UK in 2014 and 2015. In 2015, Metro Bank derived approximately 84% of its residential mortgages acquired from intermediaries.

Since the global financial crisis in 2008, access to residential mortgage credit in the UK generally has been more restricted than before the crisis, particularly at higher loan-to-value ratios, due to a number of factors, including (i) a significant reduction in the number of available mortgage products, (ii) a more cautious approach to valuations of properties by surveyors (which in turn reduces the value of the mortgage that can be obtained on a given property), (iii) stricter underwriting standards by lenders that have resulted in more stringent mortgage application requirements for borrowers, including increased down payments, (iv) the introduction, under the FCA's 2014 Mortgage Market Review, of mandatory interest rate "stress testing" by lenders when assessing mortgage affordability by borrowers, (v) a desire by certain lenders to limit their lending exposure in relation to specific types of housing developments, (vi) the exit of a number of mortgage providers from the UK market.

In addition, Metro Bank's residential mortgage loan portfolio is affected by changes in interest rates, particularly given that 19% of the portfolio was variable rate as of 31 December 2015. As of 15 January 2016, the Bank of England base rate was 0.5%. Increases in the base rate have previously had a negative impact on the UK property market because interest rates charged on mortgages have increased correspondingly, thereby making it more expensive for prospective buyers to purchase residential property. Prospective buyers who can obtain a mortgage at current interest rates may also be deterred by the possibility of increased rates in the future and instead elect to remain in their current property or to continue renting. Higher interest rates (and, in turn, higher monthly interest payments) may also make mortgages unobtainable for some prospective buyers. Investor buyers also are sensitive to interest rate fluctuations, as higher interest rates negatively affect their investment returns.

Metro Bank's residential mortgage portfolio, like its customer base, is concentrated in London and the South East of England (although with the geographic expansion of Metro Bank's store network, and the recent expansion of Metro Bank's intermediary base across the UK, this geographic distribution has changed and is expected to continue to change over time). Metro Bank has benefited from the fact that in London, prime residential property has been regarded as a preferred outlet for international capital, and residential property price growth has been largely sustained in recent years, in part due to an increase in the buy-to-let market. Residential property prices in the South East of England generally also have been more resilient to macroeconomic pressures compared to other regions of the UK.

Metro Bank's residential mortgage portfolio may also be affected in the future by UK Government-backed property purchase assistance schemes, as well as changes to the FLS. In addition, although Metro Bank has not seen a significant effect on its loan portfolio as a result of the increase in stamp duty introduced on real estate transactions valued at £1 million and higher in 2015, there is a risk that mortgage lending volumes could decrease in the future as a result of these or other taxes imposed on the ownership and/or transfer of real estate in the UK. In addition, the UK Government's 2015 Summer Budget introduced proposals to reduce the tax relief on mortgage interest expense available to buy-to-let landlords, which may result in lower yields on buy-to-let property investments. These factors could make the purchase of buy-to-let properties a less viable investment proposition and reduce the demand for buy-to-let mortgages. The Bank of England has also stated that it is considering increasing the regulatory capital requirements of banks holding buy-to-let mortgages on their balance sheets, although no specific proposals have been made. The UK Government also announced in the 2015 Autumn Budget that stamp duty payable on second homes and certain buy-to-let homes would increase by 3% from April 2016. These factors could make the purchase of buy-to-let properties and/or second homes a less viable investment proposition and reduce the demand for related mortgages.

Commercial Segment lending

Metro Bank's Commercial Segment product offering, which primarily consists of term loans relating to secured fixed and variable rate business loans, portfolio buy-to-let lending, asset and invoice financing, and partner loans, represents an important driver of Metro Bank's lending growth during the periods under review, as well as its lending strategy going forward. Commercial Segment lending increased from £362 million as of 31 December 2013 to £1,273 million as of 31 December 2015. This growth has been driven by term loan volume growth, primarily business loans, as well as the introduction of the portfolio buy-to-let offering, as Metro Bank's brand awareness increased and its commercial team was expanded.

To complement the benefits realised from its expanding store network, Metro Bank has invested significant resources in developing specialist teams and relationship managers to increase its Commercial Segment lending business. Two central teams, a real estate team and a specialist sectors team (focusing on a number of priority sectors such as real estate, healthcare, hospitality and leisure), are complemented by commercial teams in each region that focus on meeting the needs of local businesses. However, as Metro Bank has grown its Commercial Segment lending, it has also experienced a degree of pricing pressure from larger High Street competitor banks, and it expects this competition to continue in the future.

Metro Bank's portfolio buy-to-let offering, which Metro Bank introduced in February 2015, has also demonstrated significant growth since its launch, accounting for £220 million in lending as of 31 December 2015.

In 2013, Metro Bank acquired SME Invoice Finance Limited and its subsidiaries, which specialises in invoice discounting and factoring and asset finance, further bolstering its Commercial Segment lending offering. Through the acquisition of this company, which has been rebranded as Metro Bank Invoice and Asset Finance, Metro Bank broadened its offering to commercial customers with a focus on the manufacturing, wholesale, and transport and distribution markets. Since their acquisition, these portfolios have grown from £53 million to £123 million as of 31 December 2015.

Partnerships and bilateral commercial relationships

Metro Bank has recently launched several significant partnerships that, due to their relatively recent introduction, have had a limited impact on its results of operations, but are expected to be important drivers of Metro Bank's business going forward, including by increasing Metro Bank's brand visibility. For example, in April 2015, Metro Bank launched the co-branded MMA with St. James's Place. Through the arrangement, St. James's Place investors are given an MMA provided by Metro Bank, providing them with a fully functional current account banking service and allowing them to benefit from an integrated secured overdraft facility with immediate access to short-term funds, secured against the value of their eligible St. James's Place investment portfolio. In addition, Metro Bank provides loans to St. James's Place partners, and is exploring opportunities to expand the co-branded products it offers to St. James's Place clients. By partnering with St. James's Place, one of the most well-known wealth management businesses in the UK, Metro Bank expects to increase its profile in the market.

In May 2015, demonstrating Metro Bank's willingness to consider and enter into non-traditional partnership models in the banking market, Metro Bank began an innovative partnership with the UK peer-to-peer loan platform Zopa to lend to customers through their platform (with Metro Bank extending credit to borrowers only if the proposed loan is within Metro Bank's credit risk appetite). As of 31 December 2015, loans on Zopa's platform represented £28.9 million of Metro Bank's loan portfolio, or approximately 1%, with loans ranging from £1,000 to £25,000, and an average loan size of £8,000. The Directors anticipate that Metro Bank will gradually increase its funding to Zopa, benefitting from increased brand exposure from the relationship as well as a steady supply of lending.

Stores roll-out and maturity

Metro Bank has pursued and intends to continue to pursue a strategy of store expansion. Between launch in July 2010 and 31 December 2015, the number of Metro Bank's stores has increased to 40, and Metro Bank has targeted having approximately 110 stores by the end of 2020. Metro Bank generally targets new stores making a positive contribution to Metro Bank's net income in less than 24 months. This roll-out strategy affects Metro Bank's results of operations by increasing operating expenses, making period-on-period comparisons more difficult.

As of 31 December 2015, like-for-like store growth (for stores open longer than 12 months) of deposits was 69%.

Investment securities

As of 31 December 2013, 2014 and 2015, Metro Bank had investment securities of £696 million, £1,612 million and £2,000 million, respectively, principally comprising AAA-rated residential mortgage-backed securities, as well as gilts, UK treasury bills, covered bonds, AA and A-rated residential mortgage-backed securities and bonds issued by corporates and financial institutions.

Metro Bank uses investment securities both as a source of liquidity and to generate returns from customer deposits which have not been lent to customers. Deposits at the Bank of England, Gilts and UK treasury bills are held primarily for liquidity purposes to cover the first 30 days of a severe combined stress (market stress and idiosyncratic) event. Residential mortgage-backed securities and covered bonds, in addition to deposits at the Bank of England, Gilts and UK treasury bills, are held to cover a further 60 days of less severe combined stress. The remaining investment securities portfolio is relatively less liquid. In addition, as of 31 December 2015, Metro Bank had pledged £524 million in investment securities as collateral to the Bank of England through Metro Bank's participation in the FLS, to support the £465 million it had drawn down from the scheme. As Metro Bank pays back its FLS funding, the amount of investment securities pledged as collateral will decrease, while any future drawdowns under the FLS are expected to be secured by the pledge of a portion of its residential mortgage portfolio.

While Metro Bank has historically invested surplus deposits in investment securities as a source of additional income, margins on these securities are typically less than that of lending, and as a result tend to suppress the overall NIM of the bank. As Metro Bank moves toward achieving its goal of an LTD Ratio of 80%, the percentage of Metro Bank's total assets that comprise investment securities is expected to decline in favour of higher yielding interest rate bearing loans, although in absolute terms the size of Metro Bank's investment securities portfolio is expected to continue to increase.

Credit risk management, loan losses and impairment losses

Customers defaulting on their loan repayment obligations can adversely impact Metro Bank's financial results. Metro Bank seeks to mitigate its retail credit risk exposure through the use of collateral and guarantee arrangements. In the case of its residential mortgages, Metro Bank stratifies its credit exposures by DTV Ratio ranges. As of 31 December 2015, Metro Bank's DTV Ratio exposures across its mortgage and commercial loan portfolios (i.e., excluding unsecured retail loans) were as follows: less than 50%, £717 million; 51% to 70%, £1,220 million; and 71% to 90%, £828 million.

Metro Bank monitors its corporate credit risk concentration by industry sector, and it reassesses its exposure limits by sector at least annually. In 2015, Metro Bank's largest industry credit exposure was real estate (20%), health and social work (3%) and legal, accountancy, consultancy and other business activities (2%).

The Directors believe that Metro Bank's conservative credit risk management policies have allowed it to effectively manage its credit risk while growing the size of its loan portfolio. Consequently, as of 31 December 2013, 2014 and 2015, Metro Bank's allowance for impairment was £3.3 million, £5.4 million and £6.8 million, respectively. The Directors believe that the credit quality of Metro Bank's loan portfolio is high, with 89%, 93% and 74% of Metro Bank's lending secured by collateral as of 31 December 2015, 2014 and 2013, respectively, while its ratio of impairment provisions to gross loans was 0.2%, 0.3% and 0.4% as of the same dates, respectively.

Nevertheless, Metro Bank's loan portfolio is relatively less seasoned compared to its major banking competitors. As a result, the Directors expect that Metro Bank's allowance for impairment is likely to increase as the maturity profile of its loan portfolio increases. For example, Metro Bank's expected expansion of its unsecured consumer loan portfolio over the medium term could increase its credit risk and loan losses. See Part VIII: "Operating and Financial Review – Net interest income".

Fee and commission income

Metro Bank earns fee and commission income through its range of commercial and retail banking services. In addition, safe deposit box fees alone make a significant contribution to the cost of leasing Metro Bank's store portfolio. In the years ended 31 December 2013, 2014 and 2015, Metro Bank earned £5.5 million, £16.1 million and £15.7 million in fee and commission income, respectively, of which £1.7 million, £3.2 million and £5.3 million, respectively, was attributable to the rental of safe deposit boxes by its customers. Although as part of its commitment to provide its customers with transparent pricing, Metro Bank charges lower fees on its products than many of its competitors, underlying fee and commission income has grown in the periods under review, primarily due to the rollout of safe deposit boxes across its expanding network of stores and increase in customer numbers. Metro Bank expects its safe deposit boxes to continue to be a significant driver of fee and commission income growth, together with increases in other fee-generating products that will result from further customer growth, particularly in trading businesses.

Taxation

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The largest element of the deferred tax asset represents the future tax impact of carried forward tax losses which will reduce the payment of future tax. This element of the deferred tax asset requires an element of management judgement in assessing its recoverability. Metro Bank recognised a deferred tax asset in respect of tax losses carried forward of £36.6 million, £46.4 million and £55.9 million as of 31 December 2013, 2014 and 2015, respectively. The increase reflects the taxable losses generated by the continued significant investment by the bank in building stores, infrastructure and IT systems to enable future growth and scale to be achieved.

Accounting standards permit the recognition of a deferred tax asset to the extent that it is probable, more likely than not, that future taxable profits will be available to utilise the tax losses carried forward. The Directors are satisfied based on the progress of Metro Bank since launch, and the detailed projections which include stress tested scenarios, that sufficient taxable profits will be available to utilise the tax losses carried forward in full.

In November 2015, the UK Parliament passed a gradual decrease in the main rate of corporation tax from the current rate of 20% to 19% in 2017 and 18% in 2020, as well as a bank surcharge of 8% on profit which will apply from 1 January 2016. Metro Bank anticipates an effective tax rate of 24% to 26% in the medium-term (including the banking surcharge announced in 2015).

Metro Bank has negotiated with the relevant tax authorities a Partial Exemption Special Method ("**PESM**"). This PESM sets out the method by which Metro Bank calculates the amount of recoverable value-added tax ("**VAT**"). As a bank most of the VAT incurred relates to exempt banking services and is therefore an income statement expense or capitalised with the fixed asset to which it relates. Some VAT (relating to taxable transactions) is, however, recoverable and a PESM is the mechanism by which this recoverable portion is agreed with HMRC. A receivable is held on the balance sheet representing Metro Bank's calculations of recoveries relating to prior periods which are owed to Metro Bank by HMRC.

Variable employee compensation costs

All variable employee compensation related to the raising of share capital through the Offers or to Metro Bank becoming a listed company will be taken through the consolidated statement of comprehensive income in the first quarter of 2016. These costs are estimated to be £7 million.

Macroeconomic and market conditions

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

However, despite volatility, during the periods under review, economic indicators in the UK have improved, with a gradual improvement in the labour market, increased consumer confidence and improved credit availability. The Directors believe that these positive economic indicators have assisted Metro Bank's rapid expansion. The Directors further believe that the economic recovery will help support (although it is not strictly necessary for) continued, sustainable growth in the market segments in which Metro Bank operates in the near and medium-term. In addition, the Directors believe that business investment is likely to improve in the coming years and, consequently, expects a greater demand by corporate customers for funding, which the Directors believe will be an important growth opportunity for Metro Bank's commercial and business lending operations. Furthermore, the Directors expect that improved economic conditions will support commercial and retail customers' general financial stability.

Financial Position

Assets

The following table sets out Metro Bank's total assets as of 31 December 2013, 2014 and 2015:

	As of 31 December		
	2013	**2014**	**2015**
		(£'000) *(unaudited)*	
Cash and balances with the Bank of England	238,979	180,630	217,900
Loans and advances to banks	24,205	35,040	64,248
Loans and advances to customers	751,058	1,590,346	3,542,548
Investment securities	696,434	1,611,451	1,999,792
Property, plant and equipment	103,286	132,195	165,257
Intangible assets	23,830	34,669	54,243
Prepayments and accrued income	8,280	18,883	30,426
Deferred tax asset	36,619	46,409	55,942
Other assets	7,537	13,661	20,525
Total assets	1,890,228	3,663,284	6,150,881

Total assets as of 31 December 2014 were £3,663.3 million, an increase of £1,773.1 million, or 94%, compared to £1,890.2 million as of 31 December 2013. The increase in total assets over this period was primarily due to increases in loans and advances to customers of £839.3 million, or 112%, from £751.1 million as of 31 December 2013 to £1,590.3 million as of 31 December 2014, as well as an increase in investment securities of £915.1 million, or 131%, from £696.4 million as of 31 December 2013 to £1,611.5 million as of 31 December 2014.

Total assets as of 31 December 2015 were £6,150.9 million, an increase of £2.5 billion, or 68%, compared to £3,663.3 million as of 31 December 2014. The increase in total assets over this period was primarily due to an increase in gross loans and advances to customers of £1,953 million, or 123%, from £1,596 million as of 31 December 2014 to £3,549 million as of 31 December 2015 and an increase in the investment portfolio of £388 million, or 24%, from £1,611 million as of 31 December 2014 to £2,000 million as of 31 December 2015.

Loans and advances to banks

Metro Bank's loans and advances to banks as of 31 December 2014 were £35.0 million, an increase of £10.8 million, or 45%, compared to £24.2 million as of 31 December 2013. Loans and advances to banks primarily reflected the balances Metro Bank maintains with its clearing bank, Barclays PLC. The increase in Metro Bank's loans and advances to banks over this period was primarily driven by the operational requirements of increased customer payments through the "Faster Payments" mechanism.

Metro Bank's loans and advances to banks as of 31 December 2015 were £64.2 million, an increase of 29.2 million, or 83%, compared to £35.0 million as of 31 December 2014. The increase in Metro Bank's loans and advances to banks over this period was primarily driven by the operational requirements of increased customer payments through Metro Bank's "Faster Payments" mechanism.

Loans and advances to customers

Metro Bank's loans and advances to customers as of 31 December 2014 were £1,590.3 million, an increase of £839.3 million, or 112%, compared to £751.1 million as of 31 December 2013. The increase in Metro Bank's loans and advances to customers over this period was primarily driven by Metro Bank's store expansion from 24 as of 31 December 2013 to 31 as of 31 December 2014, as well as customer growth from 275,000 customer accounts as of 31 December 2013 to 447,000 customer accounts as of 31 December 2014. More specifically, the growth was driven by an increase in residential mortgage and Commercial Segment lending volumes, which rose from £370.5 million to £825.1 million, and from £362.4 million to £714.6 million, respectively.

Metro Bank's loans and advances to customers as of 31 December 2015 were £3,542.5 million, an increase of £1,952 million, or 123%, compared to £1,590.4 million as of 31 December 2014. The increase in Metro Bank's loans and advances to customers over this period was primarily driven by the continued expansion of the store network and increase in brand awareness; growth in the commercial lending team; continued expansion of Metro Bank's residential mortgage intermediary network as well as the acquisition of a £344 million portfolio of prime first charge residential mortgages.

Investment securities

Metro Bank's investment securities as of 31 December 2014 were £1,611.5 million, an increase of £915.1 million or 132% compared to £696.4 million as of 31 December 2013. The increase in Metro Bank's investment securities over this period was primarily driven by the increase in customer deposits.

Metro Bank's investment securities as of 31 December 2015 were £2,000 million, an increase of £388 million, or 24%, compared to £1,611 million as of 31 December 2014. The increase in Metro Bank's investment securities over this period was primarily driven by the absolute growth in customer deposits exceeding that of loans and the need to maintain adequate liquidity. The level of absolute growth reduced as the LTD Ratio increased in the year.

Liabilities

Deposits from customers

Deposits from customers as of 31 December 2014 were £2,866.6 million, a £1,551.2 million, or a 118% increase from £1,315.4 million as of 31 December 2013. The increase in deposits from customers' accounts over this period was primarily driven by Metro Bank's store expansion from 24 as of 31 December 2013 to 31 as of 31 December 2014, as well as its customer growth from 275,000 customer accounts as of 31 December 2013 to 447,000 customer accounts as of 31 December 2014. Deposits in Metro Bank's business current accounts grew particularly rapidly, from £270 million as of 31 December 2013 to £579 million as of 31 December 2014, as a result of continued brand and store expansion and increased focus of in-store relationship managers and commercial directors to target local businesses.

Deposits from customers as of 31 December 2015 were £5,107.7 million, a £2,241.0 million, or 78%, increase compared to £2,866.6 million as of 31 December 2014. The increase in deposits from customers over this period was primarily due to the continued expansion of the store network and increase in brand awareness, the expansion and deepening of commercial customer relationships, and a continued focus on targeting partnership deposits, including funds from SIPP pension providers and solicitors' funds.

Other liabilities

The following table sets out a breakdown of Metro Bank's other liabilities as of 31 December 2013, 2014 and 2015:

	As of 31 December		
	2013	**2014**	**2015**
		(£'000) *(unaudited)*	
Trade creditors	2,988	1,895	1,792
Other taxation and social security costs	4,697	5,467	6,592
Repurchase agreements	143,816	282,544	561,779
Accruals and deferred income	21,214	27,343	45,412
Other liabilities	723	14,140	17,619
	173,438	331,389	633,194

Other liabilities as 31 December 2015 were £633.2 million, which reflected a £301.8 million, or a 91%, increase compared to other liabilities as of 31 December 2014, which were £331.4 million, which reflected a £158 million, or a 91%, increase from £173.4 million as of 31 December 2013. The increase in other liabilities over this period was primarily due to an increase in repurchase agreements, which are primarily used to convert Treasury Bills received by Metro Bank through the FLS into cash as well as to manage Metro Bank's short-term liquidity.

Explanation of Certain Income Statement Line Items

Interest income

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

Interest expense

Interest expense comprises interest payable on customer deposit accounts and repurchase agreements.

Fee and commission income

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

Net gains on sale of investment securities

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

Other income

Other income comprises net income earned from foreign exchange transactions with retail and commercial customers.

Impairment charges

Impairment charges comprise impairment provisions against individual assets and portfolios of assets where there is objective evidence that the asset is impaired.

Operating expenses

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

Depreciation and amortisation

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

Taxation

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

Results of Operations

The following table sets out Metro Bank's results of operations for the years ended 31 December 2013, 2014 and 2015:

	For the year ended 31 December		
	2013	**2014**	**2015**
		(£'000) *(unaudited)*	
Interest income	27,747	70,028	125,199
Interest expense	(11,515)	(20,621)	(36,326)

	For the year ended 31 December		
	2013	2014	2015
		(£'000)	
		(unaudited)	
Net interest income	16,232	49,407	88,873
Fee and commission income	5,491	16,076	15,713
Net gains on sale of investment securities	6,508	5,122	6,377
Other income	3,303	4,842	9,237
	31,534	75,447	120,200
Operating expenses	(75,652)	(107,940)	(141,563)
Depreciation and amortisation	(10,292)	(14,221)	(18,195)
Fees associated with listing	—	—	(1,465)
Impairment of property, plant & equipment and intangible assets	—	—	(8,744)
Total operating expenses	(85,944)	(122,161)	(169,967)
Credit impairment charges	(1,026)	(2,157)	(7,030)
Loss before tax	(55,436)	(48,871)	(56,797)
Taxation	11,001	9,789	7,592
Loss for the year	(44,435)	(39,082)	(49,205)

Interest income

The following table sets out a breakdown of Metro Bank's interest income for the years ended 31 December 2013, 2014 and 2015:

	For the year ended 31 December		
	2013	2014	2015
		(£'000)	
		(unaudited)	
Interest income			
Investment securities	10,513	22,445	29,844
Loans and advances to customers	17,234	47,583	95,355
Total interest income	27,747	70,028	125,199

Metro Bank's interest income for the year ended 31 December 2014 increased by £42.3 million, or 152%, from £27.7 million for the year ended 31 December 2013 to £70.0 million for the year ended 31 December 2014. The increase in interest income was primarily driven by the volume growth of Metro Bank's loan portfolio for the reasons discussed above. The average interest yield on its loans was 4.60% for the year ended 31 December 2014, compared to 4.73% for the year ended 31 December 2013.

Metro Bank's interest income for the year ended 31 December 2015 increased by £55.2 million, or 79%, from £70.0 million for the year ended 31 December 2014 to £125.2 million for the year ended 31 December

2015. The increase in interest income was primarily due to the increase in loans and advances to customers and a larger investment portfolio due to the increase in customer deposits being greater than the increase in customer loans. The average interest yield on its loans was 4.01% for the year ended 31 December 2015, compared to 4.60% for the years ended 31 December 2014.

Interest expense

Metro Bank's interest expense for the year ended 31 December 2014 increased by £9.1 million, or 79%, from £11.5 million for the year ended 31 December 2013 to £20.6 million for the year ended 31 December 2014. The increase in interest expense was primarily due to the increase in customer deposits, which was partially offset by a decrease in the average blended cost of deposits from 118 basis points in 2013 to 90 basis points in 2014.

Metro Bank's interest expense for the year ended 31 December 2015 increased by £15.7 million, or 76%, from £20.6 million for the year ended 31 December 2014 to £36.3 million for the year ended 31 December 2015. The increase in interest expense was primarily due to the increase in interest bearing customer deposits, partially offset by a decrease in the average blended cost of deposits from 90 basis points in 2014 to 82 basis points in 2015.

Net interest income

Metro Bank's net interest income for the year ended 31 December 2014 increased by £33.2 million, or 205%, from £16.2 million for the year ended 31 December 2013 to £49.4 million for the year ended 31 December 2014. The increase in net interest income was primarily due to an increase in interest income from loans and advances to customers.

Metro Bank's net interest income for the year ended 31 December 2015 increased by £39.5 million, or 80%, from £49.4 million for the year ended 31 December 2014 to £88.9 million for the year ended 31 December 2015. The increase in net interest income was primarily due to the increase in the LTD Ratio leading to an increase in interest income from loans and advances to customers.

Fee and commission income

Metro Bank's fee and commission income for the year ended 31 December 2014 increased by £10.6 million, or 193%, from £5.5 million for the year ended 31 December 2013 to £16.1 million for the year ended 31 December 2014. The increase in fee and commission income was primarily due to an increase in customer numbers leading to an increase in transaction volumes and increased safe deposit box rentals.

Metro Bank's fee and commission income for the year ended 31 December 2015 decreased by £0.4 million, or -2%, from £16.1 million for the year ended 31 December 2014 to £15.7 million for the year ended 31 December 2015. This decrease reflects a change in the accounting treatment of income received by Metro Bank's asset and invoice finance business at the start of 2015; this income is now classified within interest income. Underlying fee and commission income increased primarily due to the increase in transaction and other fees from customers and higher fee income from sales of safe deposit boxes.

Net gains on sale of investment securities

Metro Bank's net gains on sale of investment securities for the year ended 31 December 2014 decreased by £1.4 million, or 22%, from £6.5 million for the year ended 31 December 2013 to £5.1 million for the year ended 31 December 2014. The decrease in net gains on sale of investment securities was primarily due to a re-positioning of the portfolio, which resulted in a lower amount of sales of investment securities.

Metro Bank's net gains on sale of investment securities for the year ended 31 December 2015 increased by £1.3 million, or 24%, from £5.1 million for the year ended 31 December 2014 to £6.4 million for the year ended 31 December 2015. The increase in net gains on sale of investment securities was primarily due to the periodic realignment of the investment portfolio.

Other income

Metro Bank's other income for the year ended 31 December 2014 increased by £1.5 million, or 45%, from £3.3 million for the year ended 31 December 2013 to £4.8 million for the year ended 31 December 2014. The increase in other income was primarily due to an increase in Retail and Commercial Segment customer-driven foreign exchange transactions.

Metro Bank's other income for the year ended 31 December 2015 increased by £4.4 million, or 91%, from £4.8 million for the year ended 31 December 2014 to £9.2 million for the year ended 31 December 2015. The increase in other income was primarily due to increased Retail and Commercial Segment customer-driven foreign exchange transactions.

Credit impairment charges

Metro Bank's credit impairment charges for the year ended 31 December 2014 increased by £1.2 million, or 120%, from £1.0 million for the year ended 31 December 2013 to £2.2 million for the year ended 31 December 2014. The increase in impairment charges was primarily due to an increase in the size and maturity of the loan book.

Metro Bank's credit impairment charges for the year ended 31 December 2015 increased by £4.9 million, or 226%, from £2.2 million for the year ended 31 December 2014 to £7.0 for the year ended 31 December 2015. The decrease in impairment charges was primarily due to an increase in the size and maturity of the loan portfolio.

Operating expenses

Metro Bank's operating expenses for the year ended 31 December 2014 increased by £32.3 million, or 43%, from £75.7 million for the year ended 31 December 2013 to £107.9 million for the year ended 31 December 2014. The increase in operating expenses was primarily due to the increased number of stores; higher numbers of customer-facing colleagues, including contact centre colleagues, private banking and lending relationship officers; and continued investment in customer delivery, as well as an increase in headcount of non-store colleagues.

Metro Bank's operating expenses for the year ended 31 December 2015 increased by £33.6 million, or 31%, from £107.9 million for the year ended 31 December 2014 to £141.6 million for the year ended 31 December 2015. The increase in operating expenses was primarily due to the continued expansion of the store network, investment in IT infrastructure and digitisation of the bank and the increase in the number of customer facing colleagues in the lending, private banking and contact centre teams.

Depreciation and amortisation

Metro Bank's depreciation and amortisation for the year ended 31 December 2014 increased by £3.9 million, or 38%, from £10.3 million for the year ended 31 December 2013 to £14.2 million for the year ended 31 December 2014. The increase in depreciation and amortisation was primarily due to continued investment in new stores and IT.

Metro Bank's depreciation and amortisation for the year ended 31 December 2015 increased by £4.0 million, or 28%, from £14.2 million for the year ended 31 December 2014 to £18.2 million for the year ended 31 December 2015. The increase in depreciation and amortisation was primarily due to the continued expansion of the store network and investment in IT infrastructure and digitisation of the bank.

Taxation

Metro Bank's tax credit for the year ended 31 December 2014 decreased by £1.2 million, or 11%, from £11.0 million for the year ended 31 December 2013 to £9.8 million for the year ended 31 December 2014. The decrease in tax credit was primarily due to a lower loss before tax for Metro Bank.

Metro Bank's tax credit for the year ended 31 December 2015 decreased by £2.2 million, or 22%, from £9.8 million for the year ended 31 December 2014 to £7.6 million for the year ended 31 December 2015. The reduction in tax credit was primarily due to a reduction in the rate of corporation tax for future periods as announced in 2015. The effect of this was an additional tax charge in the year of £2.7 million. The £1.8 million difference between the movement on the deferred tax asset in 2015 and the tax credit is due to the tax effect of losses on available for sale investments, which was recognised in other comprehensive income.

Liquidity and Capital Resources

Liquidity

The Directors manage liquidity risk by maintaining sufficient net liquid assets as a percentage of liabilities to cover cash flow imbalances and fluctuations in funding in order to retain full public confidence in the liquidity of Metro Bank and to ensure that financial and regulatory obligations are met.

Metro Bank had cash and cash equivalents of £282.1 million and investment securities of £2,000 million, including accrued interest, as of 31 December 2015. Metro Bank had total liabilities in respect of customers' accounts of £5,107.7 total million as of 31 December 2015.

Cash flows

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

	Year ended 31 December	
	2013	**2014**
	(£'000) *(unaudited)*	
Net cash generated from operating activities	248,502	810,211
Net cash used in investing activities	(343,734)	(956,566)
Net cash flows from financing activities	284,308	98,841
Net (decrease)/increase in cash and cash equivalents	189,076	(47,514)
Cash and cash equivalents at the beginning of the year	74,108	263,184
Cash and cash equivalents at the end of the year	263,184	215,670

Net cash generated from operating activities

Net cash generated from operating activities increased by £562.3 million from £248.5 million in 2013 to £810.2 million in 2014. The principal factor contributing to the increase was an increase in customer deposits.

Net cash used in investing activities

Net cash used in investing activities increased by £612.0 million from £343.7 million in 2013 to £956.6 million in 2014. This increase was primarily driven by an increase in investment securities.

Net cash inflows from financing activities

Net cash inflows from financing activities decreased by £185.5 million from £284.3 million in 2013 to £98.8 million in 2014. This decrease was primarily due to lower inflows from share issues, net of costs.

Capital expenditure

Metro Bank's capital expenditure largely relates to expenditure on new stores and IT development.

In the years ended 31 December 2013 and 2014 Metro Bank's capital expenditure was £59.1 million and £41.0 million and principally comprised expenditure in relation to new stores and IT development. Metro Bank estimates that it will have capital expenditure of approximately £50 million in 2016.

Capital management

Overview

The Directors are required to consider all material risks to which Metro Bank is exposed and determine the capital required to ensure that, under both normalised and stressed conditions, Metro Bank has sufficient capital to meet internal and regulatory capital requirements.

Metro Bank must maintain a certain level of capital to meet several requirements, including:

- to meet regulatory capital requirements;
- to ensure that Metro Bank can meet its business objectives, including its growth objectives;
- to ensure that Metro Bank can withstand future uncertainty, such as economic stress; and
- to provide assurance to depositors, customers, shareholders and other third parties.

Management produces regular assessments of the current and forecasted level of capital, as well as the results of stress testing, to the Directors and the Risk Oversight Committee. Metro Bank complied with all regulatory capital requirements throughout the year ended 31 December 2015.

CRD IV

In June 2013, the European Commission published the final regulation and directive (known collectively as CRD IV) to give effect to the Basel III framework. The objective of CRD IV is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress and, therefore, reduce the risk of spill-over from the financial sector into the rest of the economy. CRD IV was implemented in the UK with effect from 1 January 2014.

The key changes introduced by CRD IV include:

- **Changes to the definition of capital resources**—between 2014 and 2018, there will be changes and additions to capital deductions from Common Equity Tier 1 and Tier 2 capital;
- **New limits and capital buffers**—changes to minimum ratios for all forms of capital with an increased focus on Common Equity Tier 1 and with a potential requirement to hold capital conservation, countercyclical and systemic risk buffers;
- **Introduction of the leverage ratio**—the Basel Committee is testing and considering a minimum Tier 1 leverage ratio of between 3.0 and 4.0%;
- **Counterparty credit risk—**introduction of a credit valuation adjustment to the mid-market valuation on OTC derivatives;
- **LCR**—to ensure that banks hold sufficient liquid assets to cover net cash outflows under stressed conditions over a period of 30 days; and
- **Net stable funding ratio ("NSFR")**—to ensure that banks have stable funding in place to support long-term obligations under both normal and stressed conditions over a period of one year.

Metro Bank's capital position as of 31 December 2015 is shown in the table below.

Capitalisation

Metro Bank has levels of capital in excess of the requirements set from time to time by the PRA. As of 31 December 2015:

- Metro Bank's fully loaded CRD IV Common Equity Tier 1 Ratio was 13.3%;
- Metro Bank's Total Capital Ratio was 13.3%; and
- Metro Bank's Leverage Ratio was 5%

The table below sets forth Metro Bank's total capital, split by type of capital, as of 31 December 2015.

Total Capital Resources	**As of 31 December 2015**
	(unaudited)
Common Equity Tier 1 ratio	13.3%
Total regulatory capital	£300 million
Total risk weighted assets	£2,261 million

The table below sets forth the composition of Metro Bank's Common Equity Tier 1 capital, as of 31 December 2015.

Common Equity Tier 1	**As of 31 December 2015**
	(unaudited)
	(£ millions)
Share capital	0
Share premium	629
Retained earnings	(211)
Less available for sale and other reserves	8
less intangible assets	54
less deferred tax asset	56
Total Common Equity Tier 1	300

Off-Balance Sheet Items

As of 31 December 2015, Metro Bank has not entered into any off-balance sheet transactions, other than those required to manage market risk in the ordinary course.

Liquidity

Liquidity is held by Metro Bank in a range of qualifying assets, including cash, gilts and a range of high quality investment securities. Metro Bank maintains levels of liquidity that are in excess of those required by the PRA. As of 31 December 2015, Metro Bank had an LCR of 126%.

Sources of funding

During the periods under review, Metro Bank's funding was principally generated through commercial and retail customer deposits, with additional funding provided by the FLS. See "*Key Factors Affecting Results of Operations – Deposit base and funding*".

Critical Accounting Policies

The discussion and analysis of Metro Bank's financial condition and results of operations are based upon Metro Bank's financial information, which has been prepared in accordance with IFRS. The preparation of this financial information requires management to make estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the related disclosure of contingent assets and liabilities. Estimates are based on available information and experience. Actual results could differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the Historical Financial Information are described in Note 4.19 (*Critical accounting estimates and judgements*) to the Historical Financial Information set out in Part VII: "Historical Financial Information". For a detailed description of Metro Bank's significant accounting policies, see Note 4 (*Significant Accounting Policies*) to the Historical Financial Information set out in Part VII: "Historical Financial Information".

Non-IFRS Financial Information

	As of and for the year ended 31 December		
	2013	**2014**	**2015**
		(unaudited)	
LTD Ratio (%)	57	56	69
NIM (%)	1.4	2.1	2.0
DTV Ratio (%) for residential mortgages	61	61	60
DTV Ratio (%) for Commercial Segment lending	61	57	57
Number of stores	24	31	40

PART IX:
SELECTED STATISTICAL INFORMATION FOR 2014 AND 2013

The following tables present certain of Metro Bank's selected statistical information for the periods indicated. The following information should be read in conjunction with the Historical Financial Information, as well as Part VIII: "Operating and Financial Review" and Part VII: "Historical Financial Information." The statistical information and discussion and analysis presented below for the years ended December 31, 2013 and 2014 is presented solely for the convenience of the reader for analytical purposes and on the basis of Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding companies ("Guide 3"). Limitations in Metro Bank's existing financial reporting system prevent it from generating certain information pursuant to Guide 3. Certain amounts and percentages included in this Private Placement Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

Distribution of Assets, Liabilities, Stockholders' Equity and Interest Rates

	Closing Balances for year ending 31 December							
	2013				2014			
	Closing spot balance	**Daily average balance**	**Interest income/ (expense)**	**Average yield/ rate paid**	**Closing spot balance**	**Daily average balance**	**Interest income/ (expense)**	**Average yield/ rate paid**
	((£'000) (unless stated)) *(unaudited)*							
Cash and cash equivalents & investment securities	959,415	630,573	10,150	1.61%	1,827,283	1,420,406	21,218	1.51%
Commercial	312,093	185,392	5,828	4.48%	635,159	480,841	20,893	4.35%
MB AF/IF	50,284	52,875	2,483	11.20%	79,483	63,953	9,455	14.78%
Residential mortgage	370,496	183,725	6,334	3.45%	825,135	588,061	19,881	3.38%
Consumer & other	21,468	15,291	1,114	7.29%	56,009	36,684	2,222	6.06%
Gross loans	754,340	437,282	15,759	4.49%	1,595,785	1,169,539	52,451	4.48%
Loan fees	—	—	373	—	—	—	1,939	—
Total interest earning assets	1,713,755	1,067,855	26,282	2.77%	3,423,068	2,589,945	75,608	2.91%
Demand – Non interest bearing	(424,954)	(297,905)	—	—	(856,777)	(684,621)	—	—
Demand – interest bearing	(487,053)	(375,007)	(3,361)	0.90%	(1,374,555)	(824,164)	(8,750)	1.06%
Fixed term	(403,382)	(234,449)	(7,171)	3.06%	(635,299)	(485,641)	(9,041)	1.86%
Total deposits	(1,315,389)	(907,361)	(10,532)	1.18%	(2,866,631)	(1,994,426)	(17,790)	0.90%
Repo funding	(143,815)	(90,624)	(963)	1.06%	(282,544)	(292,276)	(2,851)	0.98%
Total interest bearing liabilities	(1,459,204)	(997,985)	(11,495)	1.15%	(3,149,174)	(2,286,702)	(20,642)	0.90%
Net interest earnings	—	—	14,787	—	—	—	54,966	—
Net interest margin	—	—	—	1.38%	—	—	—	2.11%

Interest Differentials

	For year ending 31 December					
	2013			2014		
	Change in interest income/ (expense)	Changes in volumes	Change in rates	Change in interest income/ (expense)	Changes in volume	Change in rates
	(£'000) *(unaudited)*					
Cash and cash equivalents & investment securities	3,212	7,236	(4,024)	11,068	12,714	(1,646)
Commercial	5,835	5,501	335	12,582	13,244	(662)
MB AF/IF	2,483	0	2,483	6,972	4,682	2,291
Residential mortgage	5,376	5,502	(127)	13,547	13,939	(392)
Consumer & other	775	513	262	1,108	1,559	(451)
Gross loans	14,469	13,107	1,362	36,692	34,232	(23)
Loan fees	(649)	(649)	—	—	1,565	—
Total interest earning assets	17,032	19,694	(2,663)	46,843	48,511	(1,669)
Demand – non interest bearing	—	—	—	—	—	—
Demand – interest bearing	(2,270)	(1,827)	(443)	(5,389)	(4,026)	(1,362)
Fixed term	(3,585)	(7,855)	4,269	(1,870)	(7,683)	5,813
Total deposits	(5,856)	(9,682)	3,826	(7,258)	(11,709)	4,451
Repo funding	(958)	(603)	(354)	(1,888)	(2,142)	254
Total interest bearing liabilities	(6,814)	(10,285)	3,471	(9,146)	(13,851)	4,705
Net interest earnings	10,218	—	—	37,696	—	—

Investment Portfolio

	For year ending 31 December	
	2013	2014
	Aggregate Book Value *(£'000)* *(unaudited)*	
Issuer		
Gilts	80,080	77,105
Due in one year or less	—	—
Due after one year through five years	80,080	77,105
Due after five years through ten years	—	—
Due after ten years	—	—
RMBS	482,212	1,205,944
Due in one year or less	—	25,601
Due after one year through five years	379,648	821,296
Due after five years through ten years	102,564	359,046
Due after ten years	—	—
Covered bonds	58,439	101,165

	For year ending 31 December	
	2013	2014
	Aggregate Book Value	
Due in one year or less	—	—
Due after one year through five years	58,439	101,165
Due after five years through ten years	—	—
Due after ten years	—	—
Corporate bonds	83,203	234,119
Due in one year or less	6,847	—
Due after one year through five years	46,582	121,125
Due after five years through ten years	29,774	112,994
Due after ten years	—	—
Cash portfolio	255,472	196,426
Other	8	12,523
Total	959,415	1,827,283
Due in one year or less	6,847	25,601
Due after one year through five years	564,749	1,120,692
Due after five years through ten years	132,338	472,040
Due after ten years	—	—
Other	255,480	208,950

Loan Portfolio

	As of 31 December	
	2013	2014
	(£'000) *(unaudited)*	
Types of Loans		
Commercial		
Due in one year or less	27,158	46,926
Due after one through five years	31,198	77,401
Due after five years	260,414	585,412
Other	(6,677)	(72,745)
Total commercial	312,093	636,993
Residential		
Due in one year or less	7	—
Due after one through five years	18,899	52,948
Due after five years	347,319	717,274
Other	4,270	54,913
Total residential	370,496	825,135
Consumer & other		
Due in one year or less	14,805	21,321

	As of 31 December	
	2013	2014
	(£'000)	
	(unaudited)	
Due after one through five years	6,561	11,122
Due after five years	92	17
Other	10	23,549
Total Consumer & Other	21,468	56,009
MB AF/IF		
Due in one year or less	55,448	79,631
Due after one through five years	—	—
Due after five years	—	—
Other	(4,865)	(282)
Total consumer & other	50,583	79,349
Total loans	754,639	1,597,485
Off-balance sheet commitments and contingencies	159,223	184,317

PART X:
RISK MANAGEMENT

Overview

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

The risk management framework established by Metro Bank supports decision-making across the bank. Risk appetite, which is set by the Board and managed across the business, is subject to regular monitoring and review. Metro Bank's approach to risk management is supported by a robust risk culture which places the customer and delivering business objectives "the right way" at the heart of the business. Metro Bank seeks to adopt best practices in risk management and control that are appropriate to the size and complexity of the business. Metro Bank works to optimise risk and return while managing risk at an acceptable level of exposure.

Metro Bank's Chief Risk Officer is responsible for leading Metro Bank's risk function, which is independent from Metro Bank's operational and commercial functions. The risk function is responsible for ensuring that appropriate risk management processes and controls are in place, and that they are sufficiently robust, thereby ensuring that key risks are identified, assessed, monitored and mitigated.

Through Metro Bank's risk function, the Chief Risk Officer is responsible for providing assurance to the Board that Metro Bank's principal risks are appropriately managed and that it is operating within its risk appetite.

The risk management function provides independent reports monthly to the Board and at least quarterly to the Risk Oversight Committee (the "**ROC**") on Metro Bank's risk positions, risk management and performance against the risk appetite statements. The reporting and oversight process is designed to provide assurance to the Board and relevant committees regarding the identification, assessment and management of key risks and, in particular, that there are adequate and effective controls in place to manage these risks.

Metro Bank's risk management framework and infrastructure has developed in line with the growth of its customer base. With bespoke technology and a simple product set, Metro Bank's relationship and service focus help it to drive higher growth and lower risk lending.

Risk Management Framework

Metro Bank's risk management framework is outlined in the table below, which sets out the relevant governance and control structure for each of its key risks.

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

Monitoring Committee:	Credit sanctioning Committee Credit Policy & Appetite Committee Executive Risk Committee	Executive Risk Committee	Assets & Liabilities Committee	Assets & Liabilities Committee	Executive Risk Committee	Executive Risk Committee	Executive Risk Committee
Oversight Committee:	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee	Risk Oversight Committee

The responsibility for managing Metro Bank's principal risks rests with the Board, with the ROC, the Audit Committee and the Executive Management Committees assisting it in this function.

Board

Based on the recommendations of the ROC, the Board has ultimate responsibility for setting Metro Bank's risk appetite, which takes into consideration the interests of depositors, customers and shareholders.

The Board approves the level of risk that Metro Bank is willing to accept, and ensures there is an adequate framework in place for the reporting and management of those risks. The Board is responsible for ensuring that management has established and maintains a robust control environment to manage the principal risks, and is responsible for ensuring the capital and liquidity resources are adequate to achieve Metro Bank's objectives without taking undue risk.

The Board also maintains close oversight of current and future activities, through a combination of monthly board reports, including financial results, operational reports, budgets and forecasts and periodic reviews of the main risks set out in the Internal Capital Adequacy Assessment Process ("**ICAAP**") and Individual Liquidity Adequacy Assessment ("**ILAA**") reports.

Risk Oversight Committee

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

The ROC is chaired by a Non-Executive Director, and comprises a further three Non-Executive Directors. The Chief Executive Officer and the Chief Financial Officer attend as guests. The Chief Risk Officer also attends.

The ROC:

- recommends to the Board Metro Bank's risk appetite and regularly reviews Metro Bank's risk exposures in relation to the risk appetite;
- reviews Metro Bank's risk policies, and approves or recommends to the Board for approval; and
- monitors the effectiveness of Metro Bank's risk management processes and procedures.

The Chair of the ROC meets with the Chief Risk Officer and other senior leaders of Metro Bank regularly throughout the year to discuss risk management and control activity.

Audit Committee

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

The Audit Committee is chaired by a Non-Executive Director and comprises a further two non-executive Directors. The Chief Executive Officer, the Chief Financial Officer and the Chief Risk Officer also attend.

The Audit Committee:

- monitors the integrity of Metro Bank's financial statements, reviewing significant financial reporting issues and any judgements which they contain;
- monitors and reviews the effectiveness of the internal audit function and approves the appointment or removal of the Head of Internal Audit; and
- oversees the relationship with Metro Bank's external auditor, including reviewing the engagement terms and fees, monitoring their independence and quality control, as well as the audit findings, management letter and audited accounts.

The chair of the Audit Committee meets with both internal and external auditors regularly throughout the year.

Executive Management Committees

The CEO, supported by Metro Bank's executive management team, is responsible for executing the strategy of Metro Bank and making decisions and recommendations to the Board, as appropriate, through the following committees:

- Asset and Liabilities Committee;
- Executive Risk Committee;
- Credit Sanctioning Committee;
- Credit Policy and Appetite Committee; and
- Management Executive Committee.

*Asset & Liabilities Committee ("**ALCO**")*

The Board has delegated responsibility for managing and overseeing Metro Bank's exposure to liquidity, interest rate and market risk to ALCO.

ALCO meets monthly and is responsible for ensuring that:

- an appropriate balance is maintained between funding and lending activities, ensuring that Metro Bank meets internal liquidity targets as set out in the liquidity policy;
- an analysis of financial market trends is considered along with actual and projected business performance to assess the adequacy of funding to meet the projected targets;
- all pricing decisions are agreed at ALCO to ensure absolute visibility of trading, liquidity and market, and capital impact; and
- monitoring interest rate risk.

ALCO is chaired by the Chief Financial Officer; the Chief Executive Officer, Chief Risk Officer, Treasurer, Chief Operating Officer and the various heads of business are members of the committee. The Chairman of the ROC is a standing guest.

Executive Risk Committee

The Executive Risk Committee meets monthly and is responsible for:

- reviewing business performance in relation to risk appetite across credit, operational, regulatory and conduct risks;
- oversight of the operation of Metro Bank's Enterprise Risk Management ("**ERM**") framework (discussed below); and
- oversight of the performance of the key risk Indicators.

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

Credit Sanctioning Committee

The Credit Sanctioning Committee is responsible for:

- sanctioning of higher value lending requests, and any exceptions to policy;
- monitoring Metro Bank's overdue accounts; and
- granting and reviewing delegated lending authorities.

The Credit Sanctioning Committee meets at least twice weekly and is chaired by the director of Commercial Credit. Its membership comprises the Chief Executive Officer, Chief Risk Officer, MD Commercial Banking and an independent head of a business line.

Credit Policy and Appetite Committee

The Credit Policy and Appetite Committee meets bi-monthly and is responsible for:

- overseeing Metro Bank's credit risk policies;
- reviewing proposals on risk appetite;
- approving significant exceptions to policy;
- monitoring portfolio performance against Metro Banks's set risk appetites; and
- (with the Chief Financial Officer) approving impairment levels.

The Credit Policy and Appetite Committee is chaired by the Chief Risk Officer. Its membership comprises the Chief Executive Officer, Chief Financial Officer, director of Commercial Credit, MD Commercial Banking and Chief Commercial Officer.

Management Executive Committee

The Management Executive Committee meets at least weekly and covers (in rotation) the following topics:

- **Audit**: reports on completed audits and the progress of existing audits, as well as audit findings.
- **Trading Performance**: responsible for reviewing trading performance across each of the business lines within Metro Bank.
- **Finance**: responsible for reviewing performance across actual and forecasted costs, income, capital, and provisions.
- **Voice of the Customer**: provides direction on actions required to help ensure Metro Bank delivers amazing customer service and consistently fair customer outcomes.
- **Voice of the Colleague**: responsible for embedding and strengthening Metro Bank's unique culture through people interventions, and for reviewing the performance of key colleague metrics.

Enterprise Risk Management

The Board is responsible for the approval of Metro Bank's ERM policy, the operation of which is overseen by the Executive Risk Committee.

The ERM policy is embedded in Metro Bank through the three lines of defence, which defines responsibilities and accountabilities in accordance with the following principles:

- First line of defence – business areas (including support functions) are accountable for owning and managing, within the defined and agreed risk appetite, the risks which exist in their business area. Business areas are directed to conduct appropriate assurance activity to ensure controls are adequate and effective.
- Second line of defence – Metro Bank's risk function provides independent monitoring, advice and assurance to the business area owning the process or the policy. It is accountable for developing the risk and control frameworks and supporting tools which business areas will use to discharge their risk management responsibilities.
- Third line of defence – Metro Bank's internal audit function provides independent assurance that all significant risks are identified and appropriately reported and that they are adequately controlled. This includes an assessment of the effectiveness of the control and monitoring framework.

The Chief Risk Officer, alongside leaders within each business area, appoints "risk champions" (first line of defence) in each business area who are responsible for monitoring the management of risks within their business area, and for liaising with business heads to maintain appropriate risk management practices in their business area. Business heads manage their risk and control activities in the pursuit of business strategies and objectives.

The Chief Risk Officer leads and manages the risk monitoring and control function (second line of defence) and coordinates the implementation of the ERM policy, and the governance process to facilitate integrated risk management, across Metro Bank. This second line of defence evaluates the risk profile of Metro Bank against the risk appetite, monitors risk management practices, and reports on performance to the Executive Committee and Board. In addition, the compliance function carries out monitoring reviews to provide assurance regarding regulatory compliance across Metro Bank.

Principal Risks

Given the nature of the activities that Metro Bank undertakes, its principal risks are credit risk, liquidity risk, market risk, interest rate risk, regulatory risk, conduct risk, financial crime risk and operational risk. Each risk has a defined risk appetite which is reinforced though documented policies and overseen by a robust governance process.

All key risks have also been considered in detail as part of Metro Bank's capital adequacy assessment and are documented in its ICAAP document, which is approved by the Board. Liquidity risk is also separately considered in Metro Bank's annual Individual Liquidity Adequacy Assessment paper, which is also approved by the Board. Operational risk is also managed through Metro Bank's ERM policy.

Credit Risk

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

Credit risks associated with lending are managed through the use of detailed lending policies which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms.

Metro Bank maintains a dynamic approach to credit management and will take necessary steps if the credit performance deteriorates due to economic or sector-specific weaknesses.

Metro Bank has a director of Commercial Credit with responsibility for underwriting and lending reviews for the key aspects of the lending portfolio. The Director also provides mentoring and business support, covenant monitoring, credit committee management, case credit grading and credit training delivery.

Metro Bank also seeks to mitigate credit risk by focusing on business sectors where it has specific expertise and limiting exposures on larger loans, certain sectors and other factors which can represent higher risk. Metro Bank also seeks to obtain security cover and, where appropriate, personal guarantees from borrowers.

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

Metro Bank's risk function, Credit Sanctioning Committee, Credit Policy and Appetite Committee and the ROC have oversight responsibility for credit risk; and credit assurance reviews are conducted by Metro Bank's internal audit function, the outputs of which are reported to the Audit Committee.

Metro Bank adopts a partnership approach to credit underwriting and sanctioning. Credit partners (i.e., underwriters) work alongside relationship managers (i.e., lenders), helping to shape proposals in a way that is acceptable for both Metro Bank and the customer. The independence of the credit function is maintained through the credit committee structure, and management oversight and review. This approach has a number of benefits: credit involvement at an early stage ensures the formal sanctioning process is more efficient; customers have the opportunity to meet with the individuals responsible for the credit decision, which distinguishes Metro Bank from other lenders and reinforces Metro Bank's credentials as a relationship-driven bank. In addition, this process leads to fewer formal rejections as weaker applicants are typically filtered out before significant time or resource is expended.

Residential Mortgages

All residential mortgage applications are reviewed by an experienced team of underwriters who manually assess each application. Applications are underwritten in accordance with the residential mortgage lending policy and each loan has to undergo an affordability assessment, which takes into account the specific circumstances of each borrower. Information is obtained on all loan applications from credit reference agencies, which provide a detailed insight into the applicant's credit history and indebtedness, and which is carefully reviewed by the underwriters.

Metro Bank has a conservative approach to lending and will typically only lend up to 85% of LTV. Metro Bank also undertakes a full valuation on all properties. Valuation reports are produced by an experienced panel of qualified external valuers.

Metro Bank offers advice to mortgage borrowers but does not sell payment protection insurance policies.

Commercial Mortgages

Metro Bank has a conservative approach to underwriting commercial property loans. A team of experienced underwriters carefully reviews all applications.

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

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

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

Portfolio and Investments

Credit risk of bank and treasury counterparties is controlled through Metro Bank's Treasury Instruments and Dealing Policy, which limits the maximum exposure by entity where Metro Bank can deposit or invest. Metro Bank also performs stress testing to ensure that its treasury credit risk exposures are sufficiently robust. Credit limits are approved and monitored by Metro Bank's ALCO.

Non-performing Loans and Provisioning

Metro Bank maintains a provisioning policy which applies to all lending activities within Metro Bank. A small amount of provision is raised against performing balances (good book) once they are on the balance sheet and collective provision is raised against any non-performing loans that fall into arrears. A loan is classified by Metro Bank as non-performing once it is either 90 or 180 days in arrears, depending on the type of loan. Once an account defaults it is then fully impaired against the total balance in default. Specific provisioning is only raised against large size lending on a case by case basis.

Defaulted agreements are considered to be loans over 90 days in arrears for commercial lending and 180 days for retail unsecured products, where there is an event of agreement default or where the debtor is insolvent.

When specific provisions are made for defaulted agreements a loan-by-loan analysis is undertaken to understand the probability of recovery, whether the agreement can be restored to order or, if not, what the recovery is likely to be.

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

There is regular monitoring of the performance of loan assets, especially where there is any sign of potential or actual impairment. Late payments and arrears cases are reported in detail and reviewed regularly, and detailed credit reports are submitted for review to the monthly Management Credit Committee and to the ROC quarterly.

Liquidity Risk

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

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

Through the ILAA process, Metro Bank has assessed the level of liquidity necessary to prudently cover systemic and idiosyncratic risks; and the ILAA process determines the appropriate liquidity buffer, taking into account the specific nature of the deposit base.

The ILAA requires Metro Bank to consider all material liquidity risks in detail, and the ILAA has documented Metro Bank's analysis of each key liquidity risk driver. Liquidity risks are specifically considered by the ALCO each month.

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

Retail funding risk

Retail funding risk is the primary liquidity risk driver for Metro Bank, and this would occur if there was a concern by depositors over the current or future creditworthiness of Metro Bank. Although Metro Bank seeks to operate in such a way as to protect depositors, an extremely high proportion of deposits are protected by the UK FSCS, which protects customer deposits up to £75,000.

Wholesale Funding

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

Payments Systems

Metro Bank is not a direct member of the UK payments system. However, in the event there are problems with one of the payment systems, Metro Bank has access to payment facilities with which to make payments to cover liabilities when due.

Pipeline Loan Commitments

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

Cash Collateral Requirements

The swap Credit Support Annex requires Metro Bank or its swap counterparty to hold cash in a deposit account, depending on whether the swap is in or out of the money. As Metro Bank has no credit rating, its swap agreements are not credit rating sensitive, which removes the impact from a downgrade risk.

Contingency Funding Plan

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

Market Risk

Metro Bank does not carry out proprietary trading or hold any positions that are required to be regularly marked to market. Investments in assets are not actively traded. Exposure to foreign exchange risk are managed to within a low tolerance to facilitate customer transactions.

Metro Bank does, however, hold a portfolio of investment securities. Some of these securities are exposed to market price movements should any of the securities be sold. Monthly prices are obtained to ensure Metro Bank is aware of any material diminution in value.

Interest Rate Risk

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

Interest rate risk in the banking book consists of asset-liability interest rate gap risk and basis risk.

Regulatory Risk

Metro Bank aims to comply with all relevant rules, regulations and sourcebooks. Metro Bank has policies and procedures in place to ensure compliance with its regulatory obligations, and robust oversight and monitoring to evidence compliance. Metro Bank regularly engages with the PRA, FCA and other regulators and industry bodies to manage this risk proactively.

In assessing this risk, management considers the control mitigants in place. Key mitigants are a strong, appropriately-resourced risk function, the simplicity of Metro Bank's product range and a culture of delivering unparalleled levels of service and convenience, to ensure the consistent delivery of fair customer outcomes.

Additional controls over regulatory risk include:

- regular reporting of regulatory compliance oversight by the Executive Risk Committee and ROC;
- compliance monitoring and outcomes testing programme in place and regularly reviewed;
- control around customer data and IT systems both internally and with outsourcing partners;
- mandatory monthly regulatory training for all colleagues;
- a culture built on transparency and service, focused on delivering consistently fair customer outcomes;
- reward and recognition for all colleagues focused on providing exceptional customer service and recognising risk, compliance and audit requirements;
- training and competency schemes for all customer-facing roles; and
- products and services that pose a low regulatory risk.

Conduct Risk

Metro Bank aims to provide customers with simple, fairly-priced products delivered through unparalleled levels of services and convenience.

In assessing its conduct risk, Metro Bank considers the control mitigants in place. In addition, the simplicity of Metro Bank's product range and culture of delivering high levels of service and convenience to its customers helps ensure the consistent delivery of fair customer outcomes.

Key controls over conduct risk include:

- a culture built on transparency and service;
- products and services offered being simple and transparent;
- no sales incentive schemes in place;
- training and competency schemes for all customer-facing roles;
- conduct risk training included in the mandatory training for all colleagues;
- close management of third-party relationships;
- a compliance monitoring programme in place and regularly reviewed;

- regular consideration of conduct risks at the business risk committees; and
- close and regular oversight of conduct risk by the Chief Executive Officer, Chief Risk Officer, Executive Risk Committee, Risk Oversight Committee and Board.

Financial Crime Risk

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

Key controls over financial crime risk include:

- financial crime training included in the mandatory training for all colleagues, and enhanced in customer-facing roles;
- financial crime oversight and assurance of the financial crime risk management framework in the business;
- the development of key risk indicators for management reporting, including the monitoring of risk appetite;
- regular consideration of financial crime risks through a dedicated committee, with monthly submissions to the Board;
- financial crime risk assessment, including impact assessment of each of the key financial crime risks to which Metro Bank is exposed; and
- risk and control assessment, evaluating the effectiveness of the control framework covering financial crime risks to which the business area is exposed.

Operational Risk

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

Metro Bank aims to accept a low level of operational risk, and seeks to minimise operational failures. Key risk indicators are used to provide an overview of the control environment and to assess performance against Metro Bank's operational risk appetite. As part of its ICAAP, Metro Bank's key operational risks are assessed and quantified.

Each business area within Metro Bank is required to conduct regular risk and control assessments which identify and analyse the core risks facing their business. These are maintained in conjunction with Metro Bank's Operational Risk Team, which oversees the process.

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

Strategic Risk

Strategic Risk is the risk that Metro Bank fails to achieve short and long-term business objectives by failing to develop the products, capabilities and competitive positioning necessary to attract consumers, compete with competitors, withstand market volatility and sustain its AMAZE(ING) customer-focused culture. The result is a failure to deliver returns expected by stakeholders (customers, colleagues, shareholders, investors, communities, and regulators).

The Board uses a series of quantitative and qualitative measures regularly to monitor business performance against short and medium-term business plans.

PART XI:
DILUTION

Interests of prospective investors investing in the Shares will be diluted to the extent of the difference between the Offer Price and the net book value per Share immediately following the completion of the Offer. Net book value per Share represents the amount of Metro Bank's total assets less total liabilities divided by the number of Shares issued and outstanding as of a particular date.

Investors participating in the Offers will incur immediate dilution as a result of the issuance of: (i) 24,999,999 new Shares in connection with the Offers (assuming the maximum number of Shares are issued in the Offers); (ii) 916,561 new Shares upon conversion of the B Shares into Shares at Admission (see Part XVI: "Conversion of B Shares"); and (iii) subject to a successful transaction, £5.7m will be awarded to the Executive Directors and Senior Managers which, after PAYE deductions assumed at 30%, will be used to issue circa 166,250 new Shares to them in connection with the Project Revolution Awards (see paragraph 10.13 of Part XVII: "Additional Information")).

Metro Bank's net book value was £410 million as of 31 December 2015, amounting to £6.93 per Share, calculated using 59,207,692 Shares. Taking effect of the Offers at an Offer Price of £24 per Share, Metro Bank's adjusted net book value on 31 December 2015 would have been £11.78 per Share. This represents an immediate increase in net book value of £4.86 per ordinary share and an immediate dilution of £305 million, or £12.22 per Share, to new investors purchasing Shares in the Offers.

The table below sets forth dilution per Share to new investors.

Offer Price per Share	£24.00
Metro Bank's net book value per ordinary Share as of 31 December 2015	£6.93
Increase in Metro Bank's net book value per Share attributable to the Offer	£4.86
Metro Bank's adjusted net book value per Share after the Offer	£11.78
Dilution per Share to new investors	£12.22

PART XII:
TAXATION

GENERAL

The comments in this Part XII: "Taxation" are of a general nature and are not intended to be exhaustive. Any prospective investors who are in any doubt about their tax position should consult their own professional advisers immediately.

UNITED KINGDOM

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs published practice (which may not be binding on HM Revenue & Customs) as at the date of this Private Placement Memorandum, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to Shareholders resident and, in the case of an individual, domiciled for tax purposes in the United Kingdom and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Shares as an investment and who are the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the Shares. Certain categories of Shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefitting from certain reliefs or exemptions, those connected with the Company or Metro Bank, and those for whom the Shares are employment-related securities may be subject to special rules and this summary does not apply to such Shareholders.

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

1 Taxation of Dividends

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

A United Kingdom resident individual Shareholder who receives a dividend from the Company will generally be entitled to a tax credit which may be set off against the shareholder's total income tax liability. The tax credit will be equal to 10% of the aggregate of the dividend and the tax credit (the "**gross dividend**"), which is also equal to one-ninth of the cash dividend received.

Therefore, a United Kingdom resident individual Shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10% of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax on the dividend.

In the case of a United Kingdom resident individual Shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match the Shareholder's income tax liability on the gross dividend and such Shareholder will have to account for additional income tax equal to 22.5% of the gross dividend (which is also equal to 25% of the cash dividend received) to the extent that the gross dividend, when treated as the top slice of the Shareholder's income, falls above the threshold for higher rate income tax.

In the case of a United Kingdom resident individual Shareholder who is subject to income tax at the additional rate, the tax credit will also be set against but not fully match the Shareholder's liability on the gross dividend and such Shareholder will have to account for additional income tax equal to 27.5%

of the gross dividend (which is also equal to approximately 30.6% of the cash dividend received) to the extent that the gross dividend, when treated as the top slice of the Shareholder's income, falls above the threshold for additional rate income tax.

A United Kingdom resident individual Shareholder who is not liable to income tax in respect of the gross dividend and other United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends will not be entitled to the tax credit attaching to dividends paid by the Company (and accordingly will not be entitled to claim repayment of the tax credit).

Although Shareholders who are within the charge to corporation tax would strictly be subject to corporation tax on dividends paid by the Company (subject to special rules for such Shareholders that are small companies) generally such dividends will fall within an exempt class and will not be subject to corporation tax (provided certain conditions are met and anti-avoidance rules are satisfied). However, each Shareholder's position will depend on its own individual circumstances and Shareholders within the charge for corporation tax should consult their own professional advisers.

Non-United Kingdom resident shareholders will not generally be able to claim repayment of any part of the tax credit attaching to dividends paid by the Company. A Shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

Future changes to the taxation of dividends

The Government has announced that the income tax system for dividends is to be reformed. From April 2016, the 10% tax credit described above is to be abolished and a new annual dividend allowance of £5,000 is to be introduced. The new rates of tax on dividends received above the annual dividend allowance will be 7.5% (for basic rate taxpayers), 32.5% (for higher rate taxpayers) and 38.1% (for additional rate taxpayers). The Government has also announced that it will consult on the rules for company distributions.

2 Taxation of Capital Gains

Shareholders who are resident in the United Kingdom, and individual Shareholders who are temporarily non-resident for a period of five years or less and subsequently resume residence in the United Kingdom, may, depending on their circumstances and the availability of exemptions or reliefs (including, for example, the annual exempt amount for individuals and indexation allowance for corporate Shareholders), be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal (or deemed disposal) of the Shares.

Certain transfers at an undervalue by the Company or certain members of Metro Bank may result in a reduction in the chargeable gains tax base cost of the shares for certain Shareholders.

3 Inheritance Tax

The Shares will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there (under certain rules relating to long residence or previous domicile). Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift, and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Shares bringing them within the charge to inheritance tax. Holders of Shares should consult an appropriate professional adviser if they make a gift of any kind or transfer Shares at less than market value, or intend to hold Shares through such a company or trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

4 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

*The statements in this section entitled "Stamp Duty and Stamp Duty Reserve Tax ("**SDRT**")" are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.*

Issue

No stamp duty or SDRT will arise on the issue of Shares in registered form by the Company. In the case of shares issued to a clearance service or depositary receipt system, this is as a result of case law which has been accepted by HM Revenue & Customs.

Transfer outside of Depositary Receipt Systems and Clearance Services

An agreement to transfer Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Instruments transferring Shares will generally be subject to stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty. An exemption from stamp duty is available on an instrument transferring Shares in cases where the amount or value of the consideration provided is £1,000 or less and a certification is made that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration provided exceeds £1,000.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional), any SDRT already paid is generally repayable, normally with interest, and any SDRT charge yet to be paid is cancelled.

Transfers within CREST

Paperless transfers of Shares within the CREST system are generally liable to SDRT, rather than stamp duty, generally at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

Transfers to and within Depositary Receipt Systems and Clearance Services

HM Revenue & Customs is of the view that where shares are transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5% of the amount or value of the consideration given or, in certain circumstances, the value of the shares.

There is an exception from the 1.5% charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986 which has been approved by HM Revenue & Customs and which applies to the Shares. In these circumstances, SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer will arise on any transfer of shares into such an account and on subsequent agreements to transfer such shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

5 The proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in shares (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply, in certain circumstances, to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Shares where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, 'established' in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States, and the scope of any such tax uncertain. Additional EU Member States may decide to participate. Prospective holders of Shares are advised to seek their own professional advice in relation to the FTT.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

6 General

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Shares that are U.S. Holders that will hold the Shares as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Shares by particular investors (including consequences under the alternative minimum tax or the Medicare tax on net investment income), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5% or more of the voting stock of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Shares in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Shares by the partnership.

Except as otherwise noted, the summary assumes that the Company will not be a PFIC for U.S. federal income tax purposes, which the Company believes to be the case for its current taxable year and for the foreseeable future. The Company’s possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders. This discussion does not consider the Company's potential status as a PFIC for prior taxable years. Purchasers who currently own shares in the Company should consult their own tax advisors regarding the potential application of the PFIC regime to them of acquiring, owning and disposing of the Shares.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

7 Dividends

General

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally will be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations with respect to certain dividends. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder’s basis in the

Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to Shares will be reported as ordinary dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

So long as the Shares are "regularly traded" on the London Stock Exchange within the meaning of the income tax treaty between the United States and the United Kingdom, and certain other requirements are met, dividends paid by the Company generally would be taxable to a non-corporate U.S. Holder at the reduced rate normally applicable to long-term capital gains. A U.S. Holder will not be able to claim the reduced rate on dividends received from the Company if the Company is treated as a PFIC in the taxable year in which the dividends are received or in the preceding taxable year. See "—Passive Foreign Investment Company Considerations" below.

Dividends Paid in Sterling

Dividends paid in sterling will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder, regardless of whether the sterling are converted into U.S. dollars at that time. If dividends received in sterling are converted into U.S. dollars at the spot rate in effect on the day they are received, the U.S. Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

8 Sale or other Disposition

Upon a sale or other disposition of Shares, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Shares. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares exceeds one year. Any gain or loss generally will be U.S. source.

A U.S. Holder's tax basis in a Share generally will be its U.S. dollar cost. The U.S. dollar cost of a Share purchased with sterling generally will be the U.S. dollar value of the purchase price on the date of purchase, or, in the case of Shares traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the settlement date for the purchase. The amount realised on a sale or other disposition of Shares for an amount in sterling generally will be the U.S. dollar value of this amount on the date of sale or disposition. On the settlement date, the U.S. Holder generally will recognise U.S. source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the U.S. dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, in the case of Shares traded on an established securities market that are sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), the amount realised will be based on the exchange rate in effect on the settlement date for the sale, and no exchange gain or loss will be recognised at that time. The election by an accrual basis U.S. Holder discussed above must be applied consistently from year to year and cannot be revoked without the consent of the U.S. Internal Revenue Service (the "**IRS**").

9 Disposition of Sterling

Sterling received on the sale or other disposition of a Share will have a tax basis equal to the U.S. dollar value on the settlement date. Sterling that is purchased generally will have a tax basis equal to the U.S. dollar value of the sterling on the date of purchase. Any gain or loss recognised on a sale or other disposition of sterling (including its use to purchase Shares or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

10 Passive Foreign Investment Company Considerations

A non-U.S. corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75% of its gross income is "passive income" or (ii) at least 50% of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. The Company does not believe that it should be treated as a PFIC for its current taxable year or in the foreseeable future. Although interest income generally is passive income, a special rule allows banks to treat their income from an active banking business, including interest on loans to customers, as non-passive. To qualify for this rule, a bank must satisfy certain requirements regarding its licensing and activities. The Company believes that it currently meets these requirements. The Company's possible status as a PFIC must be determined annually, however, and may be subject to change. This determination will depend in part on whether the Company qualifies under this special rule for any year in which a U.S. Holder holds Shares, as well as on the composition and market valuation of the Company's assets and the Company's utilization of the proceeds of the Offer.

If the Company were to be treated as a PFIC in any year during which a U.S. Holder owns Shares and the U.S. Holder has not made a mark-to-market election (as described below), the U.S. Holder generally would be subject to special rules (regardless of whether the Company continued to be a PFIC) with respect to (i) any "excess distribution" (generally, any distributions received by the U.S. Holder on the Shares in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the Shares), (ii) any gain realised on the sale or other disposition of Shares, and (iii) additional reporting requirements regarding the U.S. Holder's ownership of Shares. Under these rules (a) the excess distribution or gain would be allocated rateably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which the Company is a PFIC would be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. If the Company were to be a PFIC, a U.S. Holder of Shares generally would be subject to similar rules with respect to distributions to the Company by, and dispositions by the Company of the stock of, any direct or indirect subsidiaries of the Company that are also PFICs. Additionally, dividends paid by the Company would not be eligible for the reduced rate of tax described above under "*Dividends—General*".

U.S. Holders could avoid the interest charge described above if the Company were to be treated as a PFIC by making a mark-to-market election with respect to the Shares, provided that the Shares are "marketable". The Company expects the Shares will be marketable so long as they are "regularly traded" on the London Stock Exchange. For these purposes, the Shares would be considered regularly traded during any calendar year during which they are traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement would be disregarded.

A U.S. Holder that makes a mark-to-market election must include in ordinary income for each year an amount equal to the excess, if any, of the fair market value of the Shares at the close of the taxable year over the U.S. Holder's adjusted basis in the Shares. An electing holder may also claim an ordinary loss deduction for the excess, if any, of the U.S. Holder's adjusted basis in the Shares over the fair market value of the Shares at the close of the taxable year, but this deduction is allowable only to the extent of any net mark-to-market gains for prior years. Gains from an actual sale or other disposition of the Shares would be treated as ordinary income, and any losses incurred on a sale or other disposition of the Shares would be treated as an ordinary loss to the extent of any net mark-to-market gains for prior years and any additional loss would be capital loss. Dividends paid by the Company still would not be subject to the favourable dividend rate discussed above with respect to dividends paid to certain non-corporate U.S. Holders. Once made, the election cannot be revoked without the consent of the IRS unless the Shares cease to be marketable. If the Company is a PFIC for any year in which the U.S. Holder owns the Shares but before a mark-to-market election is made, the interest charge rules described above would apply to any mark-to-market gain recognised in the year the election is made. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs the Company holds an interest in, a U.S. Holder generally would continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by the Company that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime to the their investment in the Shares, including, for purchasers who currently own shares in the Company, the potential application of the PFIC regime to them if the Company was a PFIC for any prior year during which such purchasers held their shares in the Company.

11 Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Shares, including requirements related to the holding of certain foreign financial assets.

12 Transfer Reporting Requirements

A U.S. Holder who purchases Shares may be required to file Form 926 (or similar form) with the IRS in certain circumstances. A U.S. Holder who fails to file any such required form could be required to pay a penalty equal to 10% of the gross amount paid for the Shares (subject to a maximum penalty of U.S.$100,000, except in cases of intentional disregard). U.S. Holders should consult their tax advisers with respect to this or any other reporting requirement that may apply to an acquisition of the Shares.

13 FATCA Withholding

Pursuant to certain provisions of U.S. law, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of these rules to instruments such as the Shares, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Shares, are not entirely clear at this time. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Shares, such withholding would not apply to foreign passthru payments prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Shares**.**

PART XIII:
INFORMATION ON THE OFFERS

1 Offers

1.1 20,833,333 New Shares will be offered for subscription in the first instance to Qualifying Shareholders at the Offer Price and in proportion (as nearly as may be without involving fractions) to the nominal amount of Shares held by each Shareholder at the Record Date. Subject to demand, Qualifying Shareholders will then also have the option to subscribe for additional New Shares at the Offer Price and in proportion (as nearly as may be without involving fractions) to the nominal amount of Shares held by them, respectively, at the Record Date pursuant to the Top-Up Offer in respect of up to an additional 4,166,666 New Shares in total. Metro Bank may issue a lower number of New Shares in the Top-up Offer, in which case Shareholders' Top-Up Offer Entitlements would be reduced accordingly or it may decide not to proceed with the Top-Up Offer, in which case Shareholders would no longer have a Top-Up Offer Entitlement.

1.2 Qualifying Shareholders who apply for their full Offer Entitlements will also have the option to subscribe at the Offer Price for any New Shares not taken up by other Qualifying Shareholders pursuant to the Offers, with allocation at the sole discretion of Metro Bank.

1.3 Any New Shares not taken up by Qualifying Shareholders under the Offers will be available for subscription by new investors. Such additional New Shares will be allotted at the Offer Price, on such terms (not being more favourable than the terms of the Offers) and in such manner and to such persons as the Board may think fit, subject to the New Articles and any legal requirements applicable to such allotment. The Board reserves the right to reject in whole or part, or to scale down or limit, any application by any new investor. Such allotment is expected to occur at the same time as the allotment of New Shares to Qualifying Shareholders under the Offers.

1.4 Metro Bank reserves the right to withdraw the availability of the Offers at any time in its sole discretion. Although it is anticipated that the Offers will raise at least approximately £500 million, the Company may proceed with the Transaction, provided that at least £400 million is raised.

1.5 Closing of the Offers is conditional on Admission and the adoption of the New Articles. With effect from Admission, certain of the B Shares will convert into Shares as described in Part XVI (Conversion of B Shares) and the Company will have a single class of ordinary share in issue. The New Shares will be issued subject to the New Articles, credited as fully paid, and will be identical to and rank *pari passu* in all respects with the Shares already in issue, including for all dividends and distributions declared, paid or made on the Shares after the date of allotment of the New Shares.

1.6 Subscription Amounts will be required to be paid in Pounds Sterling in cleared funds into the Subscription Account on or before 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its absolute discretion determine).

1.7 The Subscription Account will be held at Metro Bank and, therefore, during the period between the Payment Date and the allocation of the New Shares (or the return of Subscription Amounts on or about 8 March 2016 in respect of unsuccessful applications for New Shares or if the Transaction does not proceed), investors will not benefit from the protection that they might otherwise have received if the Subscription Amounts were held by a third party during this period.

1.8 Further information about the application process and the Subscription Terms and Conditions are set out in Part XIV: "Application Instructions and Procedures" and Part XV: "Terms and Conditions of the Offers".

1.9 On 26 January 2016, Goldman Sachs International, Merrill Lynch International and RBC Europe Limited (trading as RBC Capital Markets) ("**RBC**") (together, the "**Private Placement Advisers**") and Stifel Nicolaus Europe Limited (trading as Keefe, Bruyette & Woods) ("**KBW**" or the "**Co-Private Placement Adviser**") entered into an engagement letter with the Company (the "**Engagement Letter**") pursuant to which they agreed to act as private placement advisers and co-private placement adviser, respectively, to the Company in relation to the placement of New Shares to new investors and RBC agreed to act as the Company's sponsor in relation to Admission. In advance of Admission it is intended that the Company will enter into a Sponsor Agreement with RBC.

1.10 The Private Placement Advisers and the Co-Private Placement Adviser will receive a placement advisory fee from the Company of 2% in respect of Shares allocated in the Offers to investors procured by the Private Placement Advisers and the Co-Private Placement Adviser and a 0.25% transaction management fee in respect of the remainder of the Shares allocated in the Offers (of which £100,000 will be paid to Moelis & Company (which is also advising the Company in relation to the Transaction), with the remaining 85% to be shared equally among RBC, Merrill Lynch International and Goldman Sachs International, 10% to be paid to KBW and 5% to be allocated at the discretion of the Company).

1.11 The Engagement Letter contains certain warranties, representations and indemnities given by the Company in favour of the Private Placement Advisers and the Co-Private Placement Adviser.

1.12 The appointment of the Private Placement Advisers and the Co-Private Placement Adviser under the Engagement Letter may be terminated by the mutual written agreement of the Company, the Private Placement Advisers and the Co-Private Placement Adviser at any time. The Company may unilaterally terminate the appointment of the Private Placement Advisers or the Co-Private Placement Adviser and the Private Placement Advisers or the Co-Private Placement Adviser may unilaterally resign, on prior written notice.

2 Dealing arrangements

2.1 Application has been made to the FCA for the Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

2.2 It is expected that Admission will take place and unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 29 February 2016. Prior to Admission, it is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 24 February 2016. All dealings in the Shares between the commencement of conditional dealings and the commencement of unconditional dealings will be on an if-and-when-issued basis. If Admission does not become unconditional in all respects, any such dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

2.3 It is intended that New Shares allocated to investors who are able to hold shares in uncertificated form will take place through CREST on Admission. It is intended that, where applicable, definitive share certificates in respect of the New Shares will be distributed from 8

March 2016 or as soon as practicable thereafter. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the person concerned.

3 CREST

3.1 CREST is a paperless settlement system in the UK enabling securities to be evidenced otherwise than by a certificate and to be transferred otherwise than by a written instrument. With effect from Admission, the New Articles will permit the holding of Shares under the CREST system. The Company has applied for the Shares to be admitted to CREST with effect from Admission.

CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so. Shareholders outside the United States and Shareholders in the United States that are "qualified institutional buyers" (as defined in the Securities Act) applying for Shares may, however, elect to receive Shares in uncertificated form if they are system-members (as defined in the Uncertificated Securities Regulations) in relation to CREST.

PART XIV:
APPLICATION INSTRUCTIONS AND PROCEDURES

The procedures contained in this Part XIV: "Application Instructions and Procedures" apply to all applicants for New Shares, unless Metro Bank otherwise agrees. Metro Bank shall be entitled to vary the terms in this Part XIV: "Application Instructions and Procedures" in respect of any applicant for New Shares in its absolute discretion.

Applicants may only apply once and applicants who submit two or more Application Forms may have their Application Forms rejected.

Applicants wishing to apply to subscribe for New Shares must complete the following steps during the Offer Period in order for their Application Form to be considered:

Step One – Completing and Submitting the Application Form

If you wish to subscribe for New Shares in the Offers, you will need to complete and send back the Application Form confirming your commitment to subscribe for the indicated number of New Shares under the Offers. By doing so, you will give an initial commitment to Metro Bank to subscribe for the relevant number of New Shares at the Offer Price and to pay to Metro Bank the necessary Subscription Amount to satisfy your subscription obligations. Following publication of the Supplemental Private Placement Memorandum on or around 16 February 2016, you will be entitled to withdraw your commitment if you wish to do so by notifying the Company Secretary, Michael Brierley in advance of 4.00 p.m. (London time) on 22 February 2016.

From 22 February 2016 until Admission, if we provide to you supplementary disclosure, including by way of: (i) identifying information that is in the prospectus published in connection with Admission that was not included in this Private Placement Memorandum or any supplement thereto; or (ii) a supplementary prospectus, you will be allowed, for a period of time to be notified to you, to cancel your subscription for Shares in the Offer. In such event, the Closing Date and the date of Admission may change.

The Application Form should be returned to Company Secretary, Michael Brierley, Metro Bank PLC, One Southampton Row, London WC1B 5HA so as to arrive no later than 4.00 p.m. (London time) on 22 February 2016 (or such later date as the Board may in its absolute discretion determine).

The Application Form must be completed, executed and submitted correctly or it may not be accepted. If you have any questions about how to complete, execute and submit the Application Form, please contact the Company Secretary, Michael Brierley.

Step Two – Payment of the Subscription Amount

For applicants wishing to subscribe for New Shares in the Offers, the Subscription Amount must be paid in Pounds Sterling in cleared funds into the Subscription Account on or before 4.00 p.m. (London time) on 22 February 2016 (the "**Payment Date**") (or such later time and date as the Board may in its absolute discretion determine).

Applicants must make payment of the Subscription Amount by wire transfer to the Subscription Account (payment instructions to clearly mention your name and the amount of funds that are payable, net of any bank charges and so as to ensure that cleared funds in Pounds Sterling are received on or before 4.00 p.m. (London time) on the Payment Date).

The table below sets out the information that will need to be included with your payment instruction:

Payment type:				Requirements:		
	SWIFT BIC CODE	**IBAN**	**SORT CODE**	**ACCOUNT NUMBER**	**BENEFICIARY ACCOUNT NAME**	**REFERENCE**
UK Faster Payment	N/A	N/A	23-05-80	10842921	Metro Bank PLC Subs	Shareholder/ Investor name
UK CHAPS	N/A	N/A	23-05-80	10842921	Metro Bank PLC Subs	Shareholder/ Investor name
International Payment (GBP only)	MYMBGB2L	GB25MYMB 23058010842 921	N/A	N/A	Metro Bank PLC Subs	Shareholder/ Investor name

Step Three – Confirmation of allocation

Applicants will be notified on 23 February 2016 as to whether their application has been accepted in whole or in part.

If the total number of additional New Shares applied for exceeds the number of New Shares available for subscription following the satisfaction of all subscriptions under the Offers (including where a decision is made not to proceed with an offering of the maximum number of New Shares in the Top-Up Offer), Metro Bank may, in its absolute discretion, reject, scale down or limit any application for additional New Shares.

In the event that an application is rejected in whole or in part, any Subscription Amount paid or the balance thereof will be returned to the applicant in Pounds Sterling to the account details supplied by the applicant to Metro Bank at the risk and cost of the applicant and without accounting for interest by no later than 8 March 2016.

All applicants, as applicable, authorise and instruct Metro Bank to refund all or part of Subscription Amounts by returning the funds to the bank account (details of which have been supplied by the applicants to Metro Bank).

PART XV:
TERMS AND CONDITIONS OF THE OFFERS

In the case of a joint application, references to "you" in these Subscription Terms and Conditions are to each of you, and your liability is joint and several. References to Metro Bank's "advisers" in these Terms and Conditions shall, where the context permits, include the Private Placement Advisers and the Co-Private Placement Adviser.

No person receiving a copy of this Private Placement Memorandum or the Application Form in any jurisdiction may treat the same as constituting an invitation to such person to acquire, subscribe for or purchase New Shares, nor should such person, in any event, acquire, subscribe for or purchase New Shares, unless such an acquisition, subscription or purchase complies with any registration or other legal requirements in the relevant territory. The Subscription Terms and Conditions may vary depending on the jurisdiction of the potential investor.

Metro Bank reserves the right to modify the Subscription Terms and Conditions in its sole discretion and reserves the right to withdraw the availability of either or both of the Offers at any time in its sole discretion.

By completing and delivering an Application Form in which you indicate that you wish to subscribe for or purchase New Shares, you (and, if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation) amongst other terms and conditions that may be set out in the Application Form:

Reliance on document only

(a) confirm that you have received a copy of this Private Placement Memorandum and have read and understand this Private Placement Memorandum and agree that your application is made exclusively on the basis of, and subject to the terms of, the New Articles and the Application Form, this Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto in the form provided or made available to you prior to execution of the Application Form and that you will be bound by the Application Form (subject to any amendments agreed to in writing by you and the Company) and, upon becoming a Shareholder (if you are not already), you will be bound by such New Articles, together with all amendments and modifications to the New Articles properly made from time to time;

(b) confirm that in making your application, neither you nor any person on whose behalf you are applying, are relying on any information or representation in relation to Metro Bank other than the information contained in this Private Placement Memorandum (save as provided in paragraph (c) below) and, accordingly, you agree that no person responsible solely or jointly for this Private Placement Memorandum, the Supplemental Private Placement Memorandum or any other supplement thereto or any part thereof or involved in the preparation thereof shall have any liability for any information other than the information contained in this Private Placement Memorandum;

(c) understand that unless you withdraw your application for Shares prior to 4.00 p.m. on the Payment Date, you will be deemed to have: (i) read the Supplemental Private Placement Memorandum and any other supplement thereto or to this Private Placement Memorandum issued prior to the Payment Date; and (ii) acknowledged that your investment decision is based upon this Private Placement Memorandum, read together with the Supplemental Private Placement Memorandum, and any supplements thereto;

(d) confirm that in making your application, neither you nor any person on whose behalf you are applying, are relying on any representation to you, express or implied, with respect to the merits of your decision to acquire New Shares;

(e) acknowledge and agree that this Private Placement Memorandum has been, and the Supplementary Private Placement Memorandum and any other supplement thereto or to this Private Placement Memorandum will be, prepared and provided to you by Metro Bank for your reference in connection with the Private Placement and are the sole responsibility of the Metro Bank. Accordingly, you understand and acknowledge that none of Metro Bank's agents or advisers accept responsibility for or make any representation or give any warranty, express or implied, with respect to (i) the accuracy, reliability or completeness of, (ii) the suitability for your purposes of, or (iii) the reasonableness of the grounds on which any assumptions are contained in, any information (including the Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto or to this Private Placement Memorandum), whether written or oral, provided to you by Metro Bank, the Directors or any of Metro Bank's agents or advisers in connection with your investment in the New Shares, and you will not hold Metro Bank's agents or advisers responsible or liable for any misstatements in or omission from this Private Placement Memorandum or the Supplemental Private Placement Memorandum or any other supplement thereto;

(f) understand and acknowledge that any information, whether written or oral, provided to you by Metro Bank, the Directors or any of Metro Bank's agents or advisers in connection with your investment in the New Shares may contain certain projections, forecasts or forward-looking statements with respect to the business, strategy or plans of Metro Bank, and expectations as to the future financial condition and performance of Metro Bank. You understand and acknowledge that (i) by their nature, projections, forecasts and forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and (ii) neither Metro Bank nor any of its agents or advisers makes any representation and gives no warranty, express or implied, that any such projections, forecasts or forward-looking statements will be realised;

(g) confirm that in making your application, neither you nor any person on whose behalf you are applying, are relying on any illustrative calculations, whether written or oral, communicated to you by Metro Bank or any of its agents or advisers that could be made by an investor in determining the value or projected value of Metro Bank's share capital. You acknowledge and understand that any such figures should not be relied upon as forecasts of actual future financial performance or present or future value;

(h) confirm that in making your application, you have not relied on any information regarding the Company or its Directors contained or included in any press articles or other source of public communication;

(i) understand and acknowledge that no information, whether written or oral, provided to you by Metro Bank, the Directors or any of Metro Bank's agents or advisers in connection with your investment in the New Shares shall be deemed to constitute investment advice or a recommendation for you to subscribe for the New Shares, or be an assurance or guarantee as to the expected return, or any return, following the subscription for the New Shares, or advice or representations with regard to your tax position or that of Metro Bank;

(j) understand and acknowledge that none of Metro Bank's advisers will treat you as their customer by virtue of your subscription being accepted, or owe you any duties or responsibilities concerning the price of the New Shares or the suitability for you of the New Shares, or be responsible to you for providing the protections afforded to their customers. In particular, each of the Private Placement Advisers and the Co-Private Placement Adviser is acting as private placement adviser in relation to the placement of New Shares to new investors and providing other assistance to the Company in respect of the Private Placement, but is acting solely for the Company and no-one else in the Private Placement and in doing so, is not acting as bookrunner or financial advisor to any person in respect of the Private Placement;

(k) agree that you will not duplicate or furnish copies of this Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto, or divulge any of its contents, to any person other than your investment, legal or tax adviser (who may use the information contained in the document solely for purposes related to your investment in Metro Bank);

(l) acknowledge that you have had sufficient opportunity to read this Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto, and agree to be deemed to have had notice of all information and representations concerning Metro Bank and the New Shares contained herein;

(m) confirm that, in deciding to sign the Application Form and offer to subscribe for New Shares, you have not relied on, and hereby waive (to the extent permitted by law) all claims that you may have in relation to, any statement, representation or undertaking of Metro Bank, the Directors or any of Metro Bank's agents or advisers, other than those statements made by Metro Bank as set out in the Application Form, the New Articles and this Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto;

Capacity and compliance with laws

(n) represent and warrant that you have the power, legal capacity and authority, and are permitted by applicable law to acquire and hold the New Shares and to execute, deliver and comply with the terms of the Application Form, and that such execution, delivery and compliance does not conflict with, or constitute a default under or violation of, any instrument governing you or any agreement to which you are a party or by which you or your assets may be bound, and if you sign the Application Form on behalf of somebody else or on behalf of a corporation, trust or other corporate entity, you have due authority to do so on behalf of that other person or entity, and such person or entity will also be bound accordingly and will be deemed also to have given the confirmations, warranties, undertakings and authorities contained herein and undertake to enclose your duly certified and notarised power of attorney, and a copy of the same, together with all other documents required to be submitted with your Application Form;

(o) represent and warrant that:

(i) for persons in the UK, you are:

1. a person having professional experience in matters relating to investments, being investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) ("**FPO**")); or

2. a person falling within Article 49(2)(a) to (d) of the FPO (including high net worth companies and unincorporated associations); or

3. a person to whom the communication may otherwise lawfully be made and, in each case, you were not offered the New Shares inside the United States and the Application Form was not signed by you in the United States;

(ii) for residents of the United States, you:

1. are an "accredited investor" as such term is defined in Rule 501(a) of Regulation D under the Securities Act, and you are acquiring the New Shares for your own account or for the account of an accredited investor as to which you exercise sole investment discretion and not with a view to any resale, distribution or other disposition of the New Shares in violation of United States federal or state securities laws;

2. are aware that the New Shares have not been registered under the Securities Act or any state securities laws and that the offer and sale of the New Shares to you is being made in reliance on an exemption from the registration requirements under the Securities Act;

3. understand that if you decide to offer, sell, pledge or otherwise transfer any of the New Shares, such New Shares may be offered, sold, pledged or otherwise transferred and if prior to the date that is one year after the later of the date of original issue and the last date on which the Company or any affiliate of the Company (or any predecessor thereto) was the owner of such New Shares, only outside the United States in accordance with Regulation S, and in each case in accordance with any applicable securities laws of any state of the United States or any other jurisdiction; that the New Shares will be "restricted securities" within the meaning of Rule 144 under the Securities Act; that the Company reserves the right prior to any registration of transfer or resale or other disposition of New Shares to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Company; and that the Registrar will not be required to accept for registration of transfer any New Shares, except upon presentation of evidence satisfactory to the Company and the Registrar that the foregoing restrictions on transfer have been complied with;

4. understand that upon the original issuance thereof, and until such time as the same is no longer required under applicable requirements of the Securities Act or applicable state securities laws or as otherwise determined by the Company and/or the Registrar, definitive certificates representing the New Shares, and all definitive certificates issued in exchange therefor or in substitution thereof, shall bear a legend to the effect set forth in the immediately preceding paragraph (3); and

5. acknowledge that you have not purchased the New Shares as a result of any general solicitation or general advertising (as such terms are defined in Regulation D under the Securities Act); or

(iii) for persons resident in the European Economic Area, you are:

1. a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (as amended by Directive 2010/73/EU); or

2. a person to whom the communication may otherwise lawfully be made and, in each case, you were not offered the New Shares inside the United States and the Application Form was not signed by you in the United States;

(p) represent and warrant that you have made your own independent investigation and assessment of the legal, accounting, tax, business and other ramifications of acquiring the New Shares, and as to the condition, financial or otherwise of the Company and as to any other matter relating thereto or in connection therewith, and have made or will make your own investment decisions based upon your own judgement, due diligence and the advice (if any) from such advisers as you have deemed necessary and in particular, you and your advisers have read, understand and unconditionally agree to take on all the risks included in Part II: "Risk Factors";

(q) represent and warrant that you have such knowledge and experience in financial and business matters that you are capable of evaluating the merits and risks of acquiring New Shares, including the risk of the total loss of your investment in the New Shares;

(r) confirm you are aware that: (i) investment in Metro Bank involves a high degree of risk; and (ii) no governmental agency or regulatory authority has made any finding or determination as to the fairness for investment by the public in, nor has made any recommendation or endorsement of, the New Shares;

(s) represent and warrant that you are acquiring the New Shares for your own account and have no intention, arrangement or understanding to distribute the New Shares;

(t) represent and warrant that, if you are an individual, you are over the age of 21 and have the legal capacity to complete the Application Form;

(u) represent and warrant that all consents required to be obtained by you and all legal requirements necessary to be complied with or observed by you in order for the Application Form and the allotment and issuance of New Shares to you to be lawful and valid under the laws of any jurisdiction to which you or your assets are subject have been obtained, complied with and observed and the Application Form shall be, and upon acceptance of the application by Metro Bank in whole or in part shall continue to be, enforceable against you in accordance with its terms;

(v) confirm that you are not party to any agreements or arrangements which would have the effect of making you a "controller" (whether on the basis of acting in concert, deemed holdings or voting power or otherwise) of Metro Bank for the purposes of Part XII of the FSMA;

Acceptance of applications

(w) agree to subscribe for the number of New Shares specified in the Application Form (or such lesser number for which your application is accepted by Metro Bank) at the Offer Price under the Offer and, where relevant, the Top-Up Offer;

(x) agree to pay in full your Subscription Amount in the manner described in Step Two in Part XIV: "Application Instructions and Procedures" or before 4.00 p.m. (London time) on the Payment Date;

(y) agree that if you fail to pay your Subscription Amount in the manner described in Step Two in Part XIV: "Application Instructions and Procedures" on or before 4.00 p.m. (London time) on the Payment Date, you will forfeit your right to subscribe for or purchase New Shares and you indemnify Metro Bank for any loss associated therewith;

(z) understand that Metro Bank reserves the right to reject in whole or part, or to scale down or limit, any application for New Shares over and above your Offer Entitlements and to scale down your Top-Up Offer Entitlement to the extent that the Top-Up Offer is scaled back. Metro Bank may treat applications as valid and binding even if they are not made in all respects in accordance with the prescribed instructions and the Application Form and that, if any application is not accepted in full, the whole or relevant part of any Subscription Amount paid, will be returned to the account from which they originated in Pounds Sterling at your own risk and with no interest payable thereon;

(aa) agree that, in consideration of Metro Bank agreeing to process and consider your application, your application cannot be revoked following payment of the Subscription Amount unless Metro Bank publishes thereafter supplementary disclosure, including by way of (i) material information in the prospectus published in connection with Admission that was not included in this Private Placement Memorandum, the Supplemental Private Placement Memorandum or any supplement thereto or (ii) a supplementary prospectus, in which case, you will be allowed, for a period of a time to be notified to you, to cancel your subscription for Shares in the Offer;

(bb) acknowledge that you shall not be entitled to renegotiate or avoid your subscription obligations or have them set aside;

(cc) acknowledge that, without Metro Bank's consent, you shall not be entitled to assign or transfer your subscription obligations;

(dd) acknowledge that to your knowledge there is nothing to prevent you or exclude you from subscribing for New Shares following receipt of confirmation of acceptance of your application in whole or in part subject to satisfaction of all relevant conditions;

Share certificates

(ee) subject to receipt of the Subscription Amount, authorise Metro Bank to send share certificate(s) in respect of the number of New Shares for which your application is accepted by Metro Bank to the address of the person (or, in the case of joint holders, the first-named person) named in the Application Form and to procure that your name (together with the name(s) of any other joint subscriber(s)) is/are placed on the register of Shareholders of Metro Bank in respect of such New Shares;

(ff) agree that all documents sent by post to you, by or on behalf of Metro Bank, to the address specified in the Application Form will be sent at your risk;

Anti-money laundering requirements

(gg) certify that the information given in the Application Form is true, accurate and complete and you acknowledge and agree that Metro Bank may request from you from time to time such additional information as it may deem necessary to decide whether to accept or reject your application and you agree to provide such information as may reasonably be requested;

(hh) consent to the passing on of any information about you to any relevant regulatory authorities by Metro Bank or their delegates to the extent required;

(ii) acknowledge that due to money laundering requirements operating within their respective jurisdictions, Metro Bank and/or one of its agents or advisers may require further identification of the subscriber(s) and source of funds before applications for New Shares can be processed and accepted or before Subscription Amounts can be returned to any account specified in the Application Form, and you hold Metro Bank and its respective agents and advisers harmless and indemnified against any loss arising from the failure to process your application for New Shares, if such information as has been required from you has not been provided within the allotted time to the satisfaction of the party requesting such information;

(jj) represent that the New Shares are to be purchased with funds that are from legitimate sources in connection with your regular business activities and which do not constitute the proceeds of criminal conduct within the meaning given in the Proceeds of Crime Act 2002 in the UK or in any other applicable anti-money laundering legislation and you agree to provide such further information and documentation as may be necessary for identification or other purposes pursuant to such anti-money laundering legislation;

(kk) acknowledge that you are (i) not listed on the OFAC list of specifically designated nationals and blocked persons, (ii) not otherwise the target of economic sanctions administered by OFAC and (iii) not acting on behalf of any party that is on the OFAC list of specifically designated nationals and blocked persons or otherwise the target of economic sanctions administered by OFAC;

(ll) understand and agree that any funds to be returned to you will be returned in Pounds Sterling at your risk and without deduction (apart from any bank charges) or interest, unless Metro Bank agrees otherwise, and agree that any definitive document of title and any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity and/or source of funds required by Metro Bank and/or one of its agents or advisers;

Continuing obligations

(mm) acknowledge that each representation and warranty contained in the Application Form or made in writing by you in connection with the transactions contemplated by the Application Form shall survive the execution and delivery of the Application Form, the issue and allotment of New Shares to you and your admission (if you are not already) as a Shareholder;

(nn) will repeat these undertakings, representations and warranties to Metro Bank and each of its agents and advisers on submitting your Application Form, on the Payment Date and on the Closing Date and will provide on request such certificates, documents or other evidence as Metro Bank and/or one of its agents or advisers may reasonably require to substantiate such undertakings, representations and warranties;

(oo) will notify Metro Bank immediately if you become aware that any of these undertakings, representations and warranties are no longer accurate and complete in all respects, at any time up to completion of the Offers;

(pp) understand that, if any of these representations, warranties or undertakings given by you in these Subscription Terms and Conditions are untrue, Metro Bank in its sole discretion may require a retroactive redemption of all or part of your New Shares acquired pursuant to the Offers (save that the Company will not exercise such right so as to result in another person becoming a controller, unless appropriate approval of that person from the FCA has been obtained);

(qq) covenant to observe and comply fully and promptly with the provisions of the New Articles while you are an owner of Shares and at all times to the intent and effect that each and every provision of the New Articles shall be enforceable between Metro Bank and you from time to time in whatever capacity, notwithstanding that any such provision might not have been so enforceable in the absence of this paragraph (qq) of this Part XV: "Terms and Conditions of the Offers". You undertake that you will exercise your rights in Metro Bank (whether as a shareholder or otherwise) to procure (so far as you are able) that full effect is given to the provisions of the New Articles;

Indemnity

(rr) agree to indemnify and hold harmless Metro Bank, the Directors, each of Metro Bank's agents and advisers and each of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof against any and all loss (including loss of profits, loss of reputation and consequential loss), liability, claim, damage and expense whatsoever (including, but not limited to, any and all expenses and costs (including attorneys' fees) reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based on:

(i) any false representation or warranty in connection with your Application Form or breach or failure by you to comply with any covenant or agreement made by you pursuant to the Application Form;

(ii) any action for securities laws violations instituted against you which is resolved by judgment against you; or

(iii) any failure by you to pay the Subscription Amount,

and agree that this indemnity shall apply whether or not Metro Bank, the Directors, each of Metro Bank's agents and advisers or any of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof has been negligent or at fault;

(ss) if you are acting as nominee, agent or trustee for a beneficial owner, you also agree to indemnify Metro Bank, the Directors, each of Metro Bank's agents and advisers and each of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof against any and all loss (including loss of profits, loss of reputation and consequential loss), liability, claim, damage and expense whatsoever (including, but not limited to, any and all expenses and costs (including attorneys' fees) reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) in connection with any damages resulting from the beneficial owner's assertion of lack of proper authorisation for you to enter into the Application Form or perform any obligations pursuant thereto and agree that this indemnity shall apply whether or not Metro Bank, the Directors, each of Metro Bank's agents and advisers or any of their respective advisers, their affiliates and each other person, if any, who controls or is controlled by any thereof has been negligent or at fault;

Single application

(tt) represent and warrant that you have only submitted one Application Form in relation to the Offer, or that only one Application Form has been submitted on your behalf;

Confidentiality

(uu) acknowledge that you will receive or have access to confidential information concerning Metro Bank, including, without limitation, this Private Placement Memorandum and the Supplemental Private Placement Memorandum ("**Confidential Information**"), and undertake that you shall not disclose or cause to be disclosed any Confidential Information to any person (save that you will be permitted to disclose any Confidential Information to your professional advisers, administrators and custodians) or use any Confidential Information for your own account, except in connection with your investment in Metro Bank or as otherwise required by any regulatory authority, law or regulation or by legal process. Furthermore, you agree that you may not reproduce, duplicate or distribute this Private Placement Memorandum, the Supplemental Private Placement Memorandum or any other supplement hereto or thereto, or the Application Form to any other person, except your professional advisers;

(vv) acknowledge that Metro Bank, its agents or advisers and any of their respective delegates may present the Application Form and the information provided in it to such parties (for example, affiliates, attorneys, auditors, administrators, brokers and regulators) as they deem necessary or advisable to facilitate the acceptance (or rejection) and management of your subscription for New Shares. Furthermore, it is agreed and acknowledged that any of them may be required to disclose such information to any regulator or other competent governmental or other authority or where otherwise required by law. You confirm that you understand that any such sharing or disclosure of information regarding you and/or your investment in the New Shares shall not constitute a breach of any duty or obligation of confidentiality owed to you by Metro Bank or by any of its agents or advisers and you consent to such sharing or disclosure of information regarding you or your investment in the New Shares;

Entire agreement

(ww) understand that these Subscription Terms and Conditions, the Application Form and all related terms, conditions and covenants shall be deemed to be given to and for the benefit of Metro Bank, its agents and advisers and their respective advisers and their respective successors, permitted assigns, executors, administrators and heirs, provided that, except as specifically contemplated herein, neither the Application Form nor any of the rights, interests or obligations arising pursuant hereto shall be assigned or delegated by you without the prior written consent of Metro Bank. The provisions of this Private Placement Memorandum, the Supplemental Private Placement Memorandum, any other supplement thereto and the Application Form set forth the entire agreement and understanding between the parties as to the subject matter hereof and supersede all prior and contemporaneous discussions, agreements and understandings among them as to the subject matter hereof; and

Choice of law and submission to jurisdiction

(xx) agree that the execution of the Application Form constitutes your irrevocable submission, in relation to all matters arising out of this Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto, or your subscription for the Shares, to the jurisdiction of the courts of England and Wales and your agreement that nothing shall limit the right of Metro Bank or any of its agents or advisers to bring any suit, action or proceeding arising out of or in connection with this Private Placement Memorandum, the Supplemental Private Placement Memorandum and any other supplement thereto, or subscription for the Shares in any other manner permitted by law or any court of competent jurisdiction. The Subscription Terms and Conditions and the Application Form shall be governed by and construed in accordance with the laws of England and Wales.

PART XVI:
CONVERSION OF B SHARES

The B Shares were granted to management under a management incentive plan established in 2009. B Shares will convert into Shares on a listing of Metro Bank with an aggregate value at the Offer Price of £21.7 million. This represents the B Shareholders' entitlement to a pro rata share of the excess over a "hurdle rate" market capitalisation target of £75 million (being the capitalisation of the Company at the time the shares were awarded), escalated at 8% per annum. The B Shares will convert into 916,561 Shares representing 1.07% of the issued share capital of Metro Bank on Admission.

This Part XVI: "Conversion of B Shares" sets out the conversion process for the B Shares issued by the Company, some of which will convert into Shares on Admission in accordance with the provisions of the Articles.

Trigger for Conversion of B Shares

Admission will constitute a Realisation Event for the purposes of the Articles. If the Capitalisation Value on the date of Admission is equal to or greater than the Hurdle Price, the conversion process for the B Shares will be triggered.

"***Capitalisation Value***" means the market value of the Company by reference to Admission, excluding the proceeds of the Offers. The Capitalisation Value will be determined by reference to the Offer Price and will, therefore, be £1,420,984,608.

"***Hurdle Price***" means the £75 million proceeds of the placing undertaken by the Company in 2010, plus interest on that amount at a rate of 8% per annum (compounded annually on 31 December each year) from 29 July 2010 until but excluding the date of Admission, which equates to £116,758,372.

The Capitalisation Value on Admission will, therefore, be greater than the Hurdle Price and a proportion of the B Shares will convert to Shares on Admission, with the remainder converting to deferred shares which will then be cancelled.

Calculation of Conversion of B Shares

The Articles set out a formula by which B Shares will convert to Deferred B Shares (with the balance converting to Shares) as follows:

Number of B Shares that convert to Deferred B Shares = $Number\ of\ B\ Shares - \frac{B\ Cap\ Value}{Price\ per\ A\ Share}$

$$B\ Cap\ Value = \frac{Number\ of\ B\ Shares}{Number\ of\ A\ Shares + Number\ of\ B\ Shares}\ (Capitalisation\ Value - Hurdle\ Price)$$

$$B\ Cap\ Value = \frac{1\ million}{59{,}207{,}692 + 1\ million}\ x\ (£1{,}420{,}984{,}608 - £116{,}758{,}372) = £21{,}662{,}120$$

$$Price\ per\ A\ Share = \frac{Capitalisation\ Value - B\ Cap\ Value}{Number\ of\ A\ Shares}$$

$$Price\ per\ A\ Share = \frac{£1{,}420{,}984{,}608 - £21{,}662{,}120}{59{,}207{,}692} = £23.634$$

Number of B Shares that convert to Deferred B Shares = $1\ million - \frac{£21{,}662{,}120}{£23.634} = 83{,}439$

From a total of 1 million B Shares, 83,439 will convert to Deferred B Shares and 916,561 will convert to Shares, and this conversion ratio will be applied *pro rata* to each holder of B Shares based on their holdings at the date of Admission. In accordance with the Articles, the Board may deal with fractional shareholdings as it sees fit.

PART XVII:
ADDITIONAL INFORMATION

1 Incorporation

1.1 The Company was incorporated and registered in England and Wales under the Companies Act 1985 on 6 November 2007, with the registered number 6419578, as a private company limited by shares under the name Metro Bank Limited. It re-registered as a public limited company under the name Metro Bank PLC on 29 September 2009.

1.2 The Company's registered office and principal place of business is at One Southampton Row, London WC1B 5HA, United Kingdom (telephone number: 0345 08 08 500).

1.3 The Company was granted authorisation by the Financial Services Authority in March 2010 and received a Consumer Credit Act licence from the Office of Fair Trading in August 2009.

2 Share capital

The share capital history of the Company is as follows:

2.1 On incorporation, the issued share capital of the Company was £100 consisting of 100 ordinary shares of £1 each.

2.2 On 17 September 2009, the Company, by ordinary resolution of the Board, resolved that the 100 ordinary shares of £1 each be sub-divided into 1,000,000 ordinary shares of 0.0001 pence each. 2,000,000 of those ordinary shares of 0.0001 pence each were then redesignated as 1,000,000 A Ordinary Shares of 0.0001 pence each and 1,000,000 Deferred A Shares of 0.0001 pence each. 97,000,000 of the 98,000,000 authorised but unissued shares of 0.0001 pence each were redesignated A Ordinary Shares and the remaining 1,000,000 authorised but unissued shares of 0.0001 pence each were redesignated as 1,000,000 B Ordinary Shares of 0.0001 pence each. The authorised share capital was increased from £100 to £50,100 by the creation of 50,000 new Preference Shares of £1 each.

2.3 In March 2010, the Company had an issued share capital of £50,012.945 consisting of 11,000,000 A Ordinary Shares of 0.0001 pence each, 945,000 B Ordinary Shares of 0.0001 pence each, 1,000,000 Deferred A Shares of 0.0001 pence each and 50,000 Preference Shares of £1 each. All issued Preference Shares were redeemed by the Company on 4 March 2010.

2.4 As of 31 December 2010, the Company had issued 16,750,000 A Ordinary Shares of 0.0001 pence, having issued 5,750,000 A Ordinary Shares during the year.

2.5 As of the same date, the Company had issued 1,000,000 B Ordinary Shares, having issued these to staff and Non-Executive Directors.

2.6 On 22 February 2011, the Company cancelled the Deferred A Ordinary Shares of 0.0001 pence each.

2.7 On 8 June 2012, the Company allotted 12,650,000 A Ordinary Shares at a nominal value of 0.0001 pence each, having then overall issued 29,400,000 A Ordinary Shares of 0.0001 pence each.

2.8 On 16 December 2013, the Company allotted 22,115,384 A Ordinary Shares at a nominal value of 0.0001 pence each. At 31 December 2013, the Company had issued 51,515,384 A Ordinary Shares of 0.0001 pence each.

2.9 On 21 January 2014, the Company allotted 7,692,308 A Ordinary Shares of 0.0001 pence each. At 31 December 2014 the Company had issued 59,207,692 A Ordinary Shares of 0.0001 pence each.

2.10 As a result of Admission, 916,561 B Ordinary Shares will convert to A Ordinary Shares, following which the A Ordinary Shares will be redesignated as Shares. The remainder of the B Ordinary Shares will automatically be deferred.

2.11 In accordance with the terms of the Project Revolution Awards described in paragraph 10.13 of this Part XVII: "Additional Information", it is expected that the Directors will allot c. 166,250 Shares Shares conditional on Admission.

2.12 On Admission, the Company will have an issued share capital of 85,290,502Shares.[1]

2.13 On 22 February 2016, the following resolutions are expected to be passed by the Shareholders at a general meeting of the Company:

2.13.1 that, subject to and conditional upon Admission, in place of any existing authority conferred upon them for the purpose of Section 551 of the Companies Act, the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Act to exercise all powers of the Company to allot and to make offers or agreements to allot shares or grant rights to subscribe shares or convert any securities into shares (for a period expiring on 21 February 2021 (unless previously renewed, varied or revoked by the Company in general meeting)):

(a) up to an aggregate nominal amount of £28.37; and

(b) up to a further aggregate nominal amount of £28.37 in connection with an offer by way of a rights issue;

2.13.2 that, subject to and conditional upon Admission, the Directors be given power to make allotments of equity securities (as defined in Section 560(1) of the Act) wholly for cash (for a period expiring on 21 February 2021 (unless previously renewed, varied or revoked by the Company in general meeting)):

(a) pursuant to the authority given by paragraph 2.13.1(a) above and to sell shares which are held in treasury pursuant to Section 560(3) of the Act and in each case:

(I) in connection with a pre-emptive offer; and

(II) otherwise than in connection with a pre-emptive offer, up to an aggregate nominal amount of £8.50; and

(b) pursuant to the authority given by paragraph 2.13.1(b) above in connection with a pre-emptive rights issue,

as if Section 561(1) of the Act did not apply to any such allotment; and

2.13.3 that, subject to and conditional upon Admission, the Company be generally and unconditionally authorised for the purposes of Section 701 of the Act, to make one or more market purchases (within the meaning of Section 693(4) of the Act) of Shares, subject to the following restrictions and provisions (for a period expiring on 21 February

[1] Taking into account the conversion of 916,561 B Shares into Shares and the issue of c. 166,250 Shares in connection with the Project Revolution Awards (as described in paragraph 10.13 below).

2021 (unless previously renewed, varied or revoked by the Company in general meeting)):

(a) the maximum number of Shares authorised to be purchased is the number equal to 10% of the Company's issued share capital at Admission;

(b) the minimum price, exclusive of any expenses, which may be paid for a Share is 0.0001 pence;

(c) the maximum price, exclusive of any expenses, which may be paid for a Share shall be the higher of:

(d) an amount equal to 5% above the average of the middle market quotations for Shares taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such shares are contracted to be purchased; and

(e) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange Daily Official List at the time that the purchase is carried out.

3 Dividends

As a growth company, the Company does not intend to pay a dividend in the near term.

4 Articles of Association

The New Articles that are expected to be adopted with effect from Admission and will contain, among others, provisions to the following effect:

4.1 Shares

4.1.1 Share rights

The Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if authorised by the Company, the Directors. The Company may issue redeemable shares with such terms and conditions as the Directors may determine.

4.1.2 Voting rights

Where there is a vote on a show of hands, a Shareholder present at a meeting in person or by proxy has one vote. Where there is a poll, a Shareholder present in person or by proxy has one vote for every Share which they hold or represent. This is subject to any special rights or restrictions which are given to a class of shares and to the New Articles. Unless the Directors resolve otherwise, no member shall be entitled to vote either in person or by proxy, or exercise any other right in relation to general meetings, if any call of other sum due from him to the Company in respect of that Share remains unpaid.

4.1.3 Variation of rights

Subject to the provisions of the Companies Act, all or any of the rights attached to any class of Shares may from time to time be varied either with the consent in writing of the holders of not less than 75% in nominal value of Shares of that class (excluding Shares held as treasury shares) or by special resolution of the holders of those Shares.

4.1.4 *Transfer of Shares*

The Shares shall be freely transferable. Transfers of certificated shares must be effected in writing and signed by or on behalf of the transferor. The Directors may decline to register any transfer of a certificated Share, unless the conditions set out in the New Articles are complied with. Transfers of uncertificated shares may be effected by means of a relevant system (i.e., CREST) unless the CREST Regulations provide otherwise.

4.1.5 *Restrictions where notice not complied with*

Where the Company sends out a statutory notice under section 793 of the Companies Act requiring information about interests in Shares and the recipient of the notice fails to supply the information within the time specified in it, the Directors may take steps set out in the New Articles, including, among others, preventing the recipient from attending or voting at a Shareholders' meeting.

4.1.6 *Conditions governing the manner in which annual general meetings and general meetings are called*

An annual general meeting shall be held in the six months' period following the Company's accounting reference date, at such place or places, date and time as may be decided by the Directors. The Directors may, whenever they think fit, call a general meeting.

Notice of general meetings shall include all information required by the Companies Act 2006 and shall be given to all members entitled to receive such notices under the provisions of the New Articles. The Board can specify in the notice of meeting a time by which a person must be entered on the Company's share register in order to have the right to attend or vote at the meeting. The time specified must not be more than 48 hours before the time fixed for the meeting.

No business other than the appointment of a chairman shall be transacted at any general meeting, unless a quorum is present at the time when the meeting proceeds to business. Two members present in person or by proxy shall constitute a quorum.

The Directors may decide that a general meeting shall be held at two or more locations to facilitate the administration of such meeting or may require attendees to submit to searches or put in place such arrangements or restrictions as they think fit to ensure the safety and security of attendees at a general meeting.

4.2 Directors

4.2.1 *General powers*

The Directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Companies Act or by the New Articles to be exercised by the Company at a general meeting.

4.2.2 *Number of Directors*

The Directors shall not be less than two or more than 12 in number, save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of Directors.

4.2.3 *Share qualification*

The Directors are not required to hold any Shares.

4.2.4 *Directors' fees*

Directors' fees are determined by the Directors from time to time, except that they may not exceed £3 million per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the Shareholders. Directors who hold any `executive office, or who serve on any committee of the Directors, or who otherwise perform services which in the opinion of the Directors are beyond the scope of the ordinary duties of a Director, may be paid extra remuneration as the Directors may determine.

4.2.5 *Directors' retirement*

Each Director shall retire at the annual general meeting held in the third calendar year initially following listing and subsequently, or for Directors appointed after listing, at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company. Any Director who retires at an annual general meeting may offer himself for re-appointment by the Shareholders. In accordance with the UK Corporate Governance Code, each Director will be subject to annual election by Shareholders.

4.2.6 *Removal of a Director by resolution of Company*

The Shareholders may, by ordinary resolution of which special notice is given, remove any Director before the expiration of his period of office in accordance with the Companies Act, and elect another person in place of a Director so removed from office.

4.2.7 *Proceedings of the Board*

The Board can decide when and where to have meetings and how they will be conducted. If no other quorum is fixed by the Board, two Directors constitute a quorum. A Board meeting at which a quorum is present can exercise all the powers and discretions of the Board. The Board can appoint and remove any Director as chairman or as deputy chairman. Matters will be decided by a majority vote. If votes are equal, the chairman shall be entitled to a casting vote.

The Directors may delegate any of their powers or discretions, including those involving the payment of remuneration or the conferring of any other benefit to the Directors, to such person or committee and in such manner as they think fit.

4.2.8 *Directors' interests*

In accordance with the Companies Act, the Directors have the power to authorise matters giving rise to a breach of each Director's duty to avoid a situation in which he has an interest that conflicts (or might conflict) with the interests of the Company. The New Articles set out the process through which this authorisation can be granted, as well as an exhaustive list of generally permissible interests for which specific authorisation is not required.

The New Articles also provide that Directors have no voting rights in relation to matters in which they are interested and cannot count in the quorum at a meeting to consider a resolution on such a matter. There are limited exceptions such as where the Director's interest cannot reasonably by regarded as likely to give rise to a conflict of interest.

4.2.9 Restrictions on voting

Subject to certain exceptions set out in the New Articles, a Director cannot vote on, or be counted in a quorum in relation to, any resolution of the Board on any matter in which he has an interest and, if he does vote, his vote will not be counted. Subject to the Companies Act, the Shareholders may by ordinary resolution suspend or relax, to any extent, the provisions relating to Directors' interests or restrictions on voting.

4.2.10 Confidential Information

If a Director obtains (otherwise than through his position as a Director) information that is confidential to a third party, the Director will not be obliged to disclose that information to the Company, or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence.

4.2.11 Borrowing powers

The Directors may exercise all the powers of the Company to borrow money, mortgage or charge all or any part or parts of its undertaking, property and uncalled capital, and issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

4.2.12 Directors' liabilities

As far as the Companies Act allows this, the Company can indemnify any Director or former Director of the Company or of any associated company against any liability and can purchase and maintain insurance against any liability for any Director or former Director of the Company or of any associated company.

4.3 Dividends

The Company may, by ordinary resolution, declare final dividends to be paid to the Shareholders. However, no dividend shall be declared, unless it has been recommended by the Directors and does not exceed the amount recommended by the Directors. The Directors may also pay interim dividends in amounts and on dates and periods as they think fit.

5 Directors and Senior Managers of the Company

5.1 The Directors and Senior Managers and their functions within the Company and brief biographies are set out in Part V: "Directors, Senior Management and Corporate Governance".

5.2 The companies and partnerships of which the Directors and Senior Managers are, or have been, within the past five years, members of the administrative, management or supervisory bodies or partners (excluding the Company and its subsidiaries, and also excluding the subsidiaries of the companies listed below) are as follows:

Name	Current directorships/partnerships	Former directorships/partnerships
Vernon W. Hill, II	Site Development Inc. and various other related entities[2]	None

[2] Site Development Inc. is an umbrella company of a number of U.S. real estate single purpose vehicle entities of which Vernon W. Hill, II is also a director.

	US Restaurants Inc	
	Fetch Inc.	
	Galloway National Golf Club Inc.	
	Hill & Company, LLC	
	Hill-Townsend Capital, LLC	
	Interarch, Inc.	
	JVSW, LLC (Salad Works)	
Craig Donaldson	THECITYUK	None
Michael Brierley	None	None
Stuart Bernau	Almericus LLP	Nationwide Pension Fund Nominee Ltd
	Bernau Consulting Limited	Nationwide Pension Fund Trustee Limited
	Bernau Estates LLP	Standard Financial Group Limited
		Minchinhampton Golf Club Limited
		Fantastic Tackle Group Ltd
		Vulture LLP
Keith Carby	Caerus Capital Group Limited	None
	Foster Denovo plc	
Lord Howard Flight	Flight & Barr Limited	Arden Partners PLC
	Flight and Partners	Arden Partners EBT Limited
	Investec Asset Management Limited	
	The EIS Association Limited	
	CIM Investment Management Limited	
	Marechale Capital PLC	
	Flight & Partners Limited	
	Downing Four VCT PLC	
	Aurora Investment Trust PLC	
	AIT Trading Limited	

	Edge Performance VCT Public Limited Company	
	R5FX Ltd.	
Alastair (Ben) Gunn	Robert Owen Communities	Iress (UK) Limited
	The Gunn Pub Company Limited	Avelo plc
		Aviva Insurance UK Limited
		Aviva Life Holdings UK Limited
Eugene Lockhart	MissionOG LLC	None
Roger Farah	Tory Burch	Ralph Lauren Corporation
Sir Michael Snyder	Kingston Smith Group Services Limited	London Metropolitan University
	Kingston Smith Financial Advisers Limited	London Business Loans (Wholesale) Limited

Name	**Current directorships/partnerships**	**Former directorships/partnerships**
Aileen Gillan	None	None
Aisling Kane	None	None
Paul Riseborough	None	None
Danielle Harmer	None	None
Iain Kirkpatrick	None	None
Ian Walters	None	None
Mark Stokes	None	None
Chit Ghee Yeoh	None	None

Save as set out above, none of the Directors or the Senior Managers has any business interests, or perform any activities, outside Metro Bank which are significant with respect to Metro Bank.

5.3 There are no family relationships between any Directors or Senior Managers.

5.4 As of the date of this Private Placement Memorandum, none of the Directors or Senior Managers has, at any time within the last five years:

- had any prior convictions in relation to fraudulent offences;
- been declared bankrupt or been the subject of any individual voluntary arrangement;

- been associated with any bankruptcies, receiverships or liquidations when acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including designated professional bodies);
- been disqualified by a court from acting in the management or conduct of the affairs of any issuer;
- been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer;
- been a partner or senior manager in a partnership which, while they were a partner or within 12 months of them ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership voluntary arrangement;
- owned any assets which have been subject to a receivership or been a partner in a partnership subject to a receivership where they were a partner at the time or within the 12 months preceding such event; or
- been an executive director or senior manager of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which they were an executive director or senior management of that company or within 12 months of them ceasing to be an executive director or senior manager.

5.5 Until July 2007, Mr Hill served as the President and Chief Executive Officer of Commerce Bank N.A. and its parent company, Commerce Bancorp, Inc., and as Chairman of the Board of Commerce Bancorp, Inc. (collectively "**Commerce Bank**"). During and after Mr Hill's tenure at Commerce Bank, the U.S. Office of the Comptroller of the Currency ("**OCC**") and the U.S. Securities and Exchange Commission made certain inquiries into transactions involving Commerce Bank and related parties to Mr. Hill (including InterArch (see paragraph 16 below). Commerce Bank also appointed a special litigation committee to investigate allegations in shareholder actions that had been filed relating to similar issues. The shareholder actions were settled and the special litigation committee issued no finding of wrongdoing on the part of Mr. Hill.

In November 2008, Mr Hill entered into a stipulation and consent order with the OCC (the "**Order**"). The Order requires that Mr Hill report future real estate transactions with any U.S. insured financial institution associated with him to the board and the audit committee of the relevant financial institution. Additionally, in certain circumstances, when Mr Hill is an officer, director or major shareholder of these institutions, the Order mandated that the financial institution must obtain an opinion from an independent accounting or other firm with appropriate expertise that any proposed real estate transaction involving a related party to Mr Hill is fair. The Order does not apply to Mr Hill's activities with Metro Bank. The Order also did not contain any adjudicatory finding of any violation of applicable U.S. law or regulation by Mr Hill and did not restrict Mr. Hill's ability to serve as an officer or director of a U.S. insured financial institution.

5.6 The aggregate remuneration paid and benefits in kind granted to the Senior Managers by the Company and its subsidiaries during the financial year ended 31 December 2015 for services in all capacities was £1,914,888.01.

6 Directors' terms of employment

6.1 The Company has engaged Vernon W. Hill, II to act as Chairman under a letter of appointment. Mr Hill's annual fee is £285,000. Mr Hill will enter into a new letter of appointment prior to Admission which will provide that his appointment is for a fixed term of two years. The fixed term is on its anniversary each year automatically replaced by a further two year fixed term. Either the Company or Mr Hill can stop this process of automatic renewal by giving at least two months' notice to the other before the next anniversary renewal date. Following such notice there would be no automatic renewal on that anniversary or on any subsequent anniversary. In accordance with the UK Corporate Governance Code Mr Hill will be subject to annual re-election. If he were not re-elected his engagement would be terminated without any notice but he would receive payment in lieu of notice for the outstanding period of his term.

6.2 Mr Hill's appointment will be terminable without any notice or payment in certain circumstances, including (among others) if he materially or persistently breaches the terms of his appointment, has a bankruptcy order made against him, is disqualified from holding office as a director or ceases to hold any necessary regulatory approvals.

6.3 Mr Hill receives a monthly allowance of £10,000 as a contribution towards travel and living expenses. He is entitled to be reimbursed for all other reasonable and properly documented expenses incurred in performing the duties of his office, and may also be awarded cash to buy Shares annually in such amount as the Remuneration Committee shall in its sole discretion determine. These shares vest immediately and no lock up usually applies.

6.4 The Company originally entered into a service agreement with Craig Donaldson to act as CEO on 1 September 2009. The Company and Mr Donaldson will enter into a new service agreement prior to Admission. Mr Donaldson is expected to expend such of his working time, attention and abilities to his duties under the agreement as is required for the proper performance of those duties. Mr Donaldson receives an annual salary of £545,000, subject to annual review and any increase which the Remuneration Committee may in its sole discretion determine. He also receives a cash allowance in lieu of a pension contribution equivalent to 10% of his fixed annual salary from time to time. Mr Donaldson is eligible to participate in the Metro Bank Deferred Variable Reward Plan and may receive an annual bonus, option or reward of such amount as the Remuneration Committee may in its sole discretion determine. His benefit package also includes private medical cover, life assurance cover, income protection and 30 days' paid holiday (in addition to normal public and bank holidays in England and Wales). His employment can be terminated by either the Company or by Mr Donaldson giving not less than 12 months' previous notice in writing. The Company also has the right (once notice has been served by either party) to terminate the employment by making a payment in lieu of any unexpired notice. The Company may elect to pay this in instalments, subject to reduction if Mr Donaldson finds alternative employment.Mr Donaldson's employment will be terminable without any payment in certain circumstances, including (among others) where Mr Donaldson: commits any act of serious misconduct; commits any material or persistent breach of any of the terms or conditions of his service agreement; has a bankruptcy order made against him; or acts in any way which may in the reasonable opinion of the Board bring the Company into disrepute or discredit.

6.5 The Company originally entered into a service agreement with Michael Brierley to act as Chief Financial Officer on 30 April 2009. The Company and Mr Brierley will enter into a new service agreement prior to Admission. Mr Brierley is expected to perform the duties and exercise the powers which may be assigned to him by the Board consistent with his role, and to devote the whole of his time, ability and attention to his duties during normal office hours and at such other times as may reasonably be required for the proper performance of his duties. Mr Brierley receives an annual salary of £280,000, subject to annual review and any increase which the Remuneration Committee may at its sole discretion determine. He also receives a cash contribution in lieu of a pension contribution equivalent to 10% of his fixed annual salary from time to time. He also receives a travel allowance. Mr Brierley is eligible to participate in the Metro Bank Deferred Variable Reward Plan and may also receive an annual bonus, option or reward of such amount as the Remuneration Committee may in its sole discretion determine. His benefit package also includes private medical cover, life assurance cover, income protection and 30 days' paid holiday (in addition to normal public and bank holidays in England and Wales. His employment can be terminated by either the Company or by Mr Brierley giving not less than six months' previous notice in writing. The Company also has the right (once notice has been served by either party) to terminate the employment by making a payment in lieu of any unexpired notice. The Company may elect to pay this in instalments, subject to reduction if Mr Brierley finds alternative employment. Mr Brierley's employment shall in any event terminate on the date on which he reaches the age of 65. The statutory retirement procedure applies to Mr Brierley but does not form part of his terms and conditions of employment. Mr Brierley's employment will be terminable without any payment in certain circumstances, including (among others) where Mr Brierley: commits any act of serious misconduct; commits any material or persistent breach of any of the terms or conditions of his service agreement; has a bankruptcy order made against him; ceases to hold any necessary regulatory approvals, or acts in any way which may in the reasonable opinion of the Board bring the Company into disrepute or discredit.)

6.6 In addition to the Chairman, the Company has also appointed seven Non-Executive Directors, with Alastair (Ben) Gunn serving as Senior Independent Director. The Non-Executive Directors are appointed by a letter of appointment and do not have service contracts. Under the letter of appointment, each Non-Executive Director is appointed for an initial term of two years, subject to earlier termination, including (among others) provision for early termination by either the Company or the Non-Executive Director on one month's written notice or without any notice, payment in lieu of notice, or other compensation in limited circumstances including where a Non-Executive Director is not re-elected. Each Non-Executive Director will be entitled to an annual fee, which is subject to annual review by the Board, and all reasonable expenses incurred in performing their duties. Each Non-Executive Director receives a basic fee of £30,000 per annum, with a further fee of £7,500 for those who sit on committees. Stuart Bernau also receives an additional fee of £10,000 for his Chairmanship of the Audit Committee. Lord Howard Flight receives an additional fee of £10,000 for his Chairmanship of the Nomination Committee and Remuneration Committee, and Eugene Lockhart receives an additional fee of £10,000 for his Chairmanship of the Risk Oversight Committee. Alastair (Ben) Gunn receives an additional fee of £17,500 for his role as Senior Independent Director. Non-Executive Directors may receive additional lump sum annual fees which are then used by Metro Bank to buy Shares on their behalf. These shares vest immediately and no lock up usually applies. Grants of a limited number of options over Shares and B Ordinary Shares have been made to the Non-Executive Directors before Admission as set out in paragraph 9 of this Part XVII: "Additional Information" and paragraph 24 of Part VII: "Historical Financial Information". These grants are not considered by the Board to be material in the assessment of the independence of the Non-Executive Directors and no further options will be granted after Admission.

7 Directors' Remuneration Policy

Appendix 1 sets out the Directors' Remuneration Policy which is currently intended to apply from Admission. This will form the basis of the policy for which formal approval will be sought from shareholders at the Company's Annual General Meeting in 2017 (in line with Companies Act requirements). The Directors' Remuneration Policy mainly focuses on the components of and criteria applicable to the remuneration of the Executive Directors but also describes the fee arrangements for Non-Executive Directors.

8 Directors' and Senior Managers' interests

The interests (all of which are or will be beneficial unless otherwise stated) of each Director and Senior Manager (and of persons connected with them) in the share capital of Metro Bank as at the date of this Private Placement Memorandum:

Director	Number of A Shares	Number of B Shares	Percentage holding of A Shares as of date of Private Placement Memorandum	Number of options over A Shares
Vernon W. Hill, II[3]	4,542,219	0	7.67	86,000
Craig Donaldson	3,504	250,000	0.01	284,077
Michael Brierley	3,683	75,000	0.01	89,137
Stuart Bernau	46,027	20,000	0.08	33,500
Keith Carby	124,881	20,000	0.21	33,500
Lord Howard Flight	14,049	20,000	0.02	33,500
Alastair (Ben) Gunn	46,688	20,000	0.08	33,500
Eugene Lockhart	69,673	20,000	0.12	33,500
Roger Farah	475,523	0	0.80	7,500
Sir Michael Snyder	0	0	0	5,000

Senior Manager	Number of A Shares	Number of B Shares	Percentage holding of A Shares as of date of Private Placement Memorandum	Number of options over A Shares
Aileen Gillan	0	0	0	70,123
Aisling Kane	9,228	50,000	0.02	90,281
Paul Riseborough	0	0	0	45,013
Danielle Harmer	0	0	0	62,500
Iain Kirkpatrick	0	0	0	20,000
Ian Walters	0	0	0	20,000

[3] Vernon W. Hill, II holds 2.1 million Shares in an account with a financial institution subject to security arrangements to support borrowings.

Mark Stokes	0	0	0	0
Chit Ghee Yeoh...........................	0	0	0	13,182

9 Interests of significant Shareholders

The following Shareholders have interests representing 3% or more of the share capital of the Company as at the date of this Private Placement Memorandum:

Shareholder	**Number of Shares**	**Percentage holding as of date of Private Placement Memorandum**
72 Metro City Investment LLC...	5,914,848	9.99%
Wellington Funds...	5,861,561	9.90%
Fidelity Funds[(1)]	5,100,023	8.61%
Vernon W. Hill, II and related parties	4,542,219	7.67%
Brave Warrior and connected parties...	4,000,278	6.76%
Tom Smith and connected parties	3,228,151	5.45%
Abgrandkids LLC	3,222,187	5.44%
Toll Family[(2)]	2,373,286	4.01%
Willett Advisors and connected parties...	2,076,921	3.51%
Putnam Funds	1,861,538	3.14%
Lefrak Family and connected parties	1,837,315	3.10%

Notes:

(1) Shares held by BBHISL: Nominees Limited

(2) Comprises two holdings: Bruce Toll and Robert Toll

10 Deferred Variable Reward Plan

The Company has adopted the Deferred Variable Reward Plan 2016 (the "**Deferred Variable Reward Plan**"), the key terms of which are summarised below, to enable colleagues, after Admission to continue to defer some or all of their annual variable reward into options over Shares.

It replaces the Long Term Variable Reward Plan 2014 (the "**Pre-IPO Plan**") which is broadly similar but was operated prior to Admission.

10.1 Eligibility

Colleagues and Executive Directors of the Company and designated subsidiaries are eligible to participate in the Deferred Variable Reward Plan.

10.2 Invitation to participate

The Board may select any person to participate in the Deferred Variable Reward Plan in respect of their variable reward for any year. If selected, a participant will be allowed or required to receive some or all of their variable reward in the form of an award under the Deferred Variable Reward Plan.

10.3 Grant of awards

Awards can take the form of:

(i) rights to receive free Shares on vesting;

(ii) an option to acquire shares at a price determined by the Board at grant (which may be nil); or

(iii) restricted shares which are issued or transferred to the participant on grant on the basis that they must be given back to the extent that the award lapses before vesting.

Shortly after the amount of the cash element is calculated, the participant will be granted an award. The number of shares under award will have a market value, at the date of award, which is no more than the portion of the bonus which is to be received in the form of an award. If the award is an option, the option will have a fair value which is no greater than the portion of the bonus to be received as an award. The balance will be paid in cash or such other form as the Board may determine.

Awards will normally only be granted within 42 days of Admission, the Company's annual general meeting or the announcement of the Company's results for any period or at other times in exceptional circumstances.

No awards can be granted more than 10 years after Admission.

10.4 Performance conditions

Vesting of awards may be subject to performance conditions set by the Board at grant. The performance conditions may be waived or amended where the Board considers it is reasonable in the circumstances and the amended condition produces a fairer measure of performance and is not materially less difficult to satisfy.

10.5 Limits on newly issued Shares

In any 10-year period, not more than 10% of the issued ordinary share capital of the Company may be issued or be issuable under the Deferred Variable Reward Plan and all other colleagues' share plans adopted by the Company. These limits do not include awards which have lapsed or those granted on or before Admission such as the Project Revolution Awards described below.

Treasury shares transferred to satisfy an award will be counted as if new shares had been issued for so long as it is considered best practice to do so.

10.6 Clawback

The Board can reduce or delay the vesting of an award or clawback amounts already paid out in certain circumstances, including misstatement of financial figures, misconduct by the participant, failure of risk management, damage caused to the Company's reputation, or in other exceptional circumstances as determined by the Board.

10.7 Vesting of awards

Awards will normally vest, to the extent any performance condition is met over the deferral period on the vesting dates set by the Board on award.

Shares will be issued or transferred to the participant shortly after vesting or exercise in the case of an option. An option will become exercisable to the extent it vests and will lapse, at the latest, 10 years after grant. The Board can decide to satisfy an award in cash.

An award may also carry a right to additional shares or cash based on the value of dividends payable on the number of Shares in respect of which the award vests before vesting or exercise.

10.8 Leaving employment

An award will normally lapse if the participant leaves employment. But if the participant leaves in special circumstances such as ill-health, redundancy or a sale of their employer or other circumstances determined by the Board, their award will continue in effect and vest on the normal timeframe.

10.9 Takeovers and reorganisations

Awards will generally vest early on a takeover, merger or other corporate reorganisation. Alternatively, participants may be allowed or required to exchange their awards for awards over shares in the acquiring company.

Where an award vests in these circumstances, any performance condition will be tested to the date of the relevant event.

10.10 Rights issues, demergers etc.

The number of Shares subject to an award (and/or the exercise price of an option) may be adjusted to reflect a rights issue, demerger or any variation in the share capital of the Company.

10.11 General

Awards are not transferable (except to personal representatives on death) and are not pensionable and participants do not pay for the grant of an award.

Any Shares issued following the vesting of awards will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

10.12 Amendments

The Board can amend the Deferred Variable Reward Plan in any way. However, shareholder approval will be required to amend certain provisions to the advantage of participants. These provisions relate to eligibility, individual and Deferred Variable Reward Plan limits, the rights attaching to awards and shares, the adjustment of awards on variation in the Company's share capital and the amendment powers.

The Board can, without shareholder approval, change performance conditions as described above, make minor amendments to benefit the administration of the Deferred Variable Reward Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

The Board may also, without shareholder approval, establish further plans based on the Deferred Variable Reward Plan, but modified to take account of overseas securities laws, exchange controls or tax legislation. Shares made available under such further Deferred Variable Reward Plans will be treated as counting against any limits on individual or overall participation in the Deferred Variable Reward Plan.

***10.13* Variable reward for 2015 for selected members of the management team**

Selected members of the management team are eligible to receive a higher variable reward opportunity for 2015 for their contribution to the Private Placement, subject to a successful Private Placement and Admission and risk adjusted Company performance (the "**Project**

Revolution Awards"). The Remuneration Committee will determine the amount to be awarded on the basis of the following criteria:

- organisational culture and delivery of the Private Placement and Admission overall;
- AMAZE(ING) review rating for the individual;
- successful contribution to, and criticality for, success of the Private Placement and Admission; and
- length of service.

The amount awarded could range from zero to a maximum of £3,488,000 for the CEO and £1,792,000 for the CFO. In total, for all eligible members of the management team awards are not expected to exceed £7 million (including the awards for the CEO and CFO). Normal annual variable reward recommendations for 2015 for individuals receiving Project Revolution Awards will be nil.

Project Revolution Awards will be awarded in cash but delivered in Shares. The cash awarded will be used to subscribe for Shares (after deduction of tax) at £24 each on 23 February 2016 (i.e. at the offer price of the Private Placement), conditional on Admission. 20% of the Shares issued will vest immediately with a further 16% vesting on each of the first five anniversaries of Admission.

Until vesting:

- the Shares cannot generally be sold (except, for example, on death or a takeover);
- the number of Shares can be reduced or vesting delayed as described in paragraph 10.6 above;
- the employee or Director will not receive any dividends on the Shares;
- if the employee or Director leaves the Company before vesting, the Shares will normally be forfeited unless he or she left in special circumstances such as ill-health, redundancy or a sale of his or her employer.

The Shares are not subject to any restrictions once they have vested except that they may be clawed back as described in paragraph 10.6 above.

10.14 The Pre-IPO Plan

The Pre-IPO Plan is broadly similar to the Deferred Variable Reward Plan but will not be operated after Admission. The main difference between the Pre-IPO Plan and the Deferred Variable Reward Plan is that Shares are only issued or transferred and options can only be exercised under the Pre-IPO Plan following a trade sale or flotation of the Company. A total of 2,582,095 Shares remain outstanding under option or are committed to be granted as options under the Pre-IPO Plan. None of these options are subject to performance conditions.

11 Pensions

The Company operates and makes contributions for its colleagues to a defined contribution pension scheme (or equivalent pension arrangements). The Company makes employer contributions to the group personal pension plan of generally between 4% and 10% of basic salary.

The total pension cost in the year ending 31 December 2015 amounted to £3,641,515 for the defined contribution pension scheme and certain colleagues' individual personal pension plans.

The assets of these arrangements are held separately from those of the Company in independently administered funds.

The total amount set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits for the Directors for the financial year ended 31 December 2015 was £79,375.

The total amount set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits for the Senior Managers for the financial year ended 31 December 2015 was £136,838.

12 Sponsor Agreement

The Company, the Directors and RBC (the Company's "**Sponsor**" in relation to Admission) propose to enter into the Sponsor Agreement in advance of Admission. Pursuant to the Sponsor Agreement, RBC has agreed to act as the Company's sponsor in relation to Admission. The Sponsor Agreement is subject to certain conditions. These conditions will include the absence of any breach of representation or warranty under the Sponsor Agreement and Admission occurring. In addition, the Sponsor will have the right to terminate the Sponsor Agreement, exercisable in certain circumstances prior to Admission. Each of the Company and the Directors will give certain representations, warranties and undertakings, subject to certain limits, to the Sponsor and the Company will give an indemnity to the Sponsor in a form that is typical for an agreement of this nature.

13 Lock Up Arrangements

In advance of Admission, the Company proposes to enter into a lock-up agreement with the Private Placement Advisers undertaking that save for certain customary exceptions and other than pursuant to the Private Placement and the Project Revolution Awards or with the consent of the Private Placement Advisers, it will not offer, issue, lend, assign, charge or dispose of, or agree to offer, issue, lend, assign, charge or otherwise dispose of, or grant any option, right or warrant to acquire, directly or indirectly, any further Shares for a period of 180 days after the date of Admission.

In advance of Admission, the Chairman proposes to enter into a lock-up agreement with the Private Placement Advisers undertaking that save for certain customary exceptions and any disposal which takes place solely in connection with the grant or enforcement of security in connection with the arrangements noted in paragraph 8 above or with the consent of the Private Placement Advisers, he will not offer, issue, lend, assign, charge or dispose of, or agree to offer, issue, lend, assign, charge or otherwise dispose of, or grant any option, right or warrant to acquire, directly or indirectly, any of the 2.1 million Shares he holds in his own name (which does not include the Shares held by his connected parties) for a period of 90 days after the date of Admission.

In advance of Admission, each of the Executive Directors proposes to enter into a lock-up agreement with the Private Placement Advisers undertaking that save for certain customary exceptions or with the consent of the Private Placement Advisers, he will not offer, issue, lend, assign, charge or dispose of, or agree to offer, issue, lend, assign, charge or otherwise dispose of, or grant any option, right or warrant to acquire, directly or indirectly, in any Shares for a period of 90 days after the date of Admission.

14 Subsidiaries

The Company is the principal operating and holding company of Metro Bank. The direct and indirect subsidiaries of the Company are as follows:

Name	Jurisdiction of Incorporation	Proportion direct or indirect ownership interest (%)	Principal activity
SME Asset Finance Limited	England & Wales	100	Provider of asset based finance
SME Invoice Finance Limited ...	England & Wales	100	Provider of debt financing and invoice discounting

15 Material contracts

The only contract (not being a contract entered into in the ordinary course of business) that has been entered into by the Company or another member of Metro Bank within the two years immediately preceding the date of this Private Placement Memorandum or is expected to be entered into prior to Admission, and that is or may be material is the Sponsor Agreement referred to in paragraph 12 above.

16 Related party transactions and other arrangements

A key component of Metro Bank's strategy is the use of a distinctive branding concept and reflecting this concept in the design of its stores. Architectural, design and branding services are provided to Metro Bank by InterArch, Inc. ("**InterArch**"), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II, the Chairman, and which has been tasked by Metro Bank with the creation and implementation of this concept. Metro Bank's stores are designed to be highly visible (typically with large glass storefronts and fitted out in Metro Bank's recognisable red and blue colours).

In the 12 months ending 31 December 2015 the Company expensed £2.3 million in respect of these marketing services and architectural 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, the contractual arrangements with InterArch are subject to periodic review by the Company's Audit Committee using annual benchmarking reviews conducted by authoritative independent third parties. The Audit Committee has concluded that the contracts are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an independent third party. This process has been in place since the inception of Metro Bank and Metro Bank has disclosed its arrangements with InterArch in its annual report and accounts.

Any renewal of these contracts on their expiry will, following Admission, also be subject to the Audit Committee process mentioned above and the related party rules set out in Chapter 11 of the Listing Rules of the UK Listing Authority.

Details of the contracts entered into between InterArch and the Company are as follows.

16.1 Architectural design services

InterArch provide various architectural design services to the bank, including pre-design, architectural, interior design, facilities co-ordination, construction management, signage, security design and layout. The current agreement terminates on 31 December 2017 unless terminated prior to that in accordance with its terms. The fee structure for each project is based on a fixed percentage of projected hard costs. Certain additional services are provided on an hourly basis. The agreement also provides for reimbursement for disbursements up to £2,000 per month. The agreement will terminate on 31 December 2017 unless terminated prior to that in accordance with its terms.

16.2 Branding, marketing and advertising

On 31 March 2011, the Company entered into an agreement with InterArch pursuant to which InterArch provides branding, marketing and advertising services to the Company, including design and development of marketing and promotional materials for brochures, use in store and at key events. The term of the agreement was extended by a letter agreement between the parties and it is expected that the agreement will be renewed shortly on the same terms.

16.3 IPR agreement

On 21 June 2010, the Company entered into an agreement with InterArch pursuant to which InterArch agreed to transfer and assign to the Company all UK intellectual property rights in all Metro Bank banking systems elements, together with all copyright design and database rights which arise pursuant to InterArch's provision of services to the Company, and the right to take proceedings for any past infringements. Consideration was provided by the appointment of InterArch detailed above. The agreement also confirms the Company's ownership of the name "Metro" and other branding, logos or trademarks used by the Company. Outside of the UK, InterArch is granted the right to use, licence and sell the UK and U.S. Metro Bank banking systems elements, provided any third party agrees not to use such elements in the UK.

17 Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Metro Bank is aware) during the 12 months preceding the date of this Private Placement Memorandum which may have, or have had, a significant effect on the Company's or Metro Bank's financial position or profitability.

18 Working capital

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

19 No significant change

There has been no significant change in the financial or trading position of Metro Bank since 31 December 2015, the date to which the last audited consolidated interim accounts of Metro Bank PLC were prepared.

20 General

Metro Bank will incur transaction costs as a result of the Offers and the listing on the London Stock Exchange. These costs includes investment bank fees, fees for professional advice and other related fees and expenses and VAT. Metro Bank anticipates total transaction costs for the Offers and listing will be c. £15 million (including an estimated £7 million of costs for variable employee compensation related to the Offers or to Metro Bank becoming a listed company. See Part VIII: "Operating and Financial Review – Key Factors Affecting Results of Operations – Variable employee compensation costs"); £1.5 million of transaction costs relating to the listing was expensed in 2015.

The financial information contained in this Private Placement Memorandum does not amount to statutory accounts within the meaning of section 434(3) of the Companies Act. Full audited accounts have been delivered to the Registrar of Companies for the Company for accounting periods ended 31 December 2013 and 2014.

21 Takeover regulation

Since Metro Bank is a public limited company, and has its place of central management and control in the UK, the City Code on Takeovers and Mergers (the "**City Code**") applies to the Company except to the extent that Shareholders agree to waive its provisions with the consent of the Takeover Panel.

Under Rule 9 of the City Code, any person who acquires an interest in shares which, taken together with the shares already held by him or acquired by persons acting in concert with him, carry 30% or more of the voting rights in a company which is subject to the City Code is normally required by the Takeover Panel to make a general cash offer to all of the remaining shareholders to acquire all of their shares. Similarly, when any person, or persons acting in concert, already holds an interest in shares carrying 30% or more but less than 50% of the voting rights in such a company, the Takeover Panel will normally require a general cash offer to be made to all of the remaining shareholders to acquire all of their shares if any further interest in shares are acquired.

22 Controller provisions of FSMA

The controller provisions in FSMA impose obligations on persons who are either proposing to become, or are already, controllers of a UK authorised firm (such as Metro Bank) to obtain FCA approval prior to acquiring or increasing control. A "controller", broadly, is any person who:

- holds 10% or more of the shares or voting power in the authorised firm or any parent undertaking of that authorised firm; or
- is able to exercise significant influence over the management of the authorised firm or any parent undertaking by virtue of such person's shareholding or voting power.

This definition of "controller" is broad and refers to terms which themselves are subject to detailed definitions (including "voting power" and "parent undertaking").

Potential investors should also be aware that, for the purposes of calculating the level of holding they have in determining whether or not they will be a "controller" of Metro Bank, their shareholding in Metro Bank will be aggregated with any shares or voting power held by any person with whom they are deemed to be "acting in concert". Guidance issued by the previous three Level 3 Committees of European Financial Supervisors (CEBS, CEIOPS and CESR, which have now been replaced by EBA, EIOPA and ESMA respectively) in relation to the EU Acquisitions Directive provides that persons are "acting in concert" when each of them decides to exercise his rights linked to the shares he intends to acquire in accordance with an implicit or explicit agreement made between them. Certain holdings may be disregarded under detailed provisions contained in FSMA.

PART XVIII:
DEFINITIONS

The following definitions apply throughout this Private Placement Memorandum and the Application Form, unless the context requires otherwise:

Admission	the admission of the Shares to listing on the Official List of the UK Financial Services Authority and to trading on the main market for listed securities of the London Stock Exchange plc
Adviser	Moelis & Company
Application Form	the application form which accompanies this Private Placement Memorandum for use in connection with the Offers.
Articles	the articles of association of Metro Bank, as amended or replaced from time to time.
Audit Committee	the audit committee of the Board
Banking Act	the UK Banking Act 2009, as may be amended, modified or re-enacted from time to time
Banking Reform Act	the UK Financial Services (Banking Reform) Act 2013
BCA	business current account
BRRD	Directive 2014/59/EU – the Banking Resolution and Recovery Directive
Business Day	a day (other than a public holiday) on which banks are generally open for business in the UK and the U.S.
CCA	the Consumer Credit Act 1974
Closing Date	29 February 2016 or such later date as the Board may in its absolute discretion determine
CMA	the UK Competition and Markets Authority
Common Equity Tier 1 Ratio	share capital, share premium, retained earnings and other reserves less specified regulatory adjustments as a percentage of year-end risk-weighted assets
Companies Act	the Companies Act 2006
Company	Metro Bank PLC
CRD IV	the legislative package implementing the Basel III proposals, consisting of: (i) Directive 2013/36/EU on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms; and (ii) Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the European Council of 26 June 2013
CREST	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK & Ireland is the operator
CREST Regulations	the Uncertified Securities Regulations 2001 (512001/3755)
Directors or Board	the directors of Metro Bank

Disclosure and Transparency Rules	the disclosure rules and transparency rules produced by the FCA and forming part of the FCA Handbook as, from time to time, amended
DTV Ratio	debt-to-value ratio, calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral
EEA Member States	the states of the European Economic Area
EU	the European Union
European Central Bank	the central bank of the European Union
European Economic Area	the EU, Iceland, Norway and Liechtenstein
Executive Directors	the executive Directors
Existing Shares	Shares held by Shareholders on the Record Date
FCA	the UK Financial Conduct Authority.
FLS	HM Treasury's Funding for Lending scheme
FSCS	the Financial Services Compensation Scheme, a UK compensation fund set up under FSMA to provide compensation to customers of authorised financial services firms if a firm is unable, or likely to be unable, to pay claims against it
FSMA	the Financial Services and Markets Act 2000.
IFRS	the International Financial Reporting Standards, as adopted by the European Union
IPR	intellectual property rights
IRS	the U.S. Internal Revenue Service
Leverage Ratio	
LIBOR	London Interbank Offered Rate
Listing Rules	the listing relating to admission to the Official List made under section 73A(2) of FSMA
LTD Ratio	the ratio of total loans and advances to customers to deposits from customers
LTV Ratio	Loan –To – Value Ratio
Member States	the member states of the EU
Metro Bank	the Company and its consolidated subsidiaries
Moelis & Company	Moelis & Company UK LLP
New Articles	the new articles replacing the Articles on Admission, which are more appropriate for a listed company
New Shares	Shares to be issued pursuant to the Offers
Nomination Committee	the nomination committee of the Board
Non-Executive Directors	the non-executive Directors
OFAC	the U.S. Office of Foreign Assets Control
Offer	the offer to Qualifying Shareholders and certain other investors

	to subscribe for New Shares up to an aggregate total of 20,833,333 New Shares at the Offer Price on the terms and subject to the Subscription Terms and Conditions and the Application Form
Offers	the Offer and the Top-Up Offer
Offer Entitlement	the entitlement of each Qualifying Shareholder to subscribe for 0.35 New Shares for every one existing Share held by such Qualifying Shareholder on the Record Date, pursuant to the Offer
Offer Entitlements	a Qualifying Shareholder's Offer Entitlement and Top Up Offer Entitlement
Offer Period	the period starting on the Opening Date and ending on the Closing Date (inclusive)
Offer Price	£24 per Share
Official List	the Official List of the Financial Conduct Authority
Opening Date	27 January 2016, being the first day on which Application Forms will be received by Metro Bank
Payment Date	4.00 p.m. (London time) on 22 February 2016 or such later date as the Board may in its absolute discretion determine
Prospectus	the prospectus to be published by the Company in connection with Admission
Pounds Sterling or £	the lawful currency for the time being of the UK
Private Placement	the issue of Shares by the Company to "Accredited Investors" in the United States and institutional and other investors in the United Kingdom and elsewhere, as described in this Private Placement Memorandum
Private Placement Memorandum	this private placement memorandum
Project Revolution Awards	the awards described in paragraph 10.13 of Part XVII: "Additional Information"
Prospectus Directive	the EU Prospectus Directive (2003/71/EC) (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU)
Prospectus Rules	the rules for the purposes of Part VI of FSMA in relation to offers of securities to the public and the admission of securities to trading on a regulated market
Qualifying Shareholders	holders of Shares on the Company's register of members on the Record Date.
RBC or RBC Capital Markets	RBC Europe Limited, trading as RBC Capital Markets
Record Date	Close of business on 22 January 2016
Registrars	Equiniti Limited

Regulation S	Regulation S under the U.S. Securities Act
Remuneration Committee	the remuneration committee of the Board
Risk Oversight Committee	the risk oversight committee of the Board
Senior Independent Director	Alastair (Ben) Gunn, the senior independent Director
Senior Managers	Aileen Gillan, Aisling Kane, Paul Riseborough, Danielle Harmer, Iain Kirkpatrick, Ian Walters, Mark Stokes and Chit Ghee Yeoh
Shareholders	the person(s) who are registered as holders(s) of Shares from time to time
Shares	A Ordinary Shares of 0.0001 pence each in the capital of Metro Bank, which, conditional on and from Admission, will be redesignated as Ordinary Shares of 0.0001 pence each in the capital of Metro Bank
SME	small and medium enterprises
Sponsor	RBC
Sponsor Agreement	the sponsor agreement entered into between the Company, the Directors and RBC described in paragraph 12 of Part XVII: "Additional Information"
Subscription Account	the bank account with the following details: Account Name: Metro Bank SUBSCRIPTION ACCOUNT Account Number: 10842921 UK Sort Code: 23-05-80 International Bank Account Number (IBAN): GB25MYMB23058010842921 Beneficiary Bank BIC code: MYMBGB2L Correspondent Bank BIC code: BARCGB22
Subscription Amount	the aggregate price in respect of the New Shares subscribed for by a Qualifying Shareholder or other prospective investor pursuant to the Offer and/or the Top-Up Offer, payable into the Subscription Account by the Payment Date
Subscription Terms and Conditions	the terms and conditions of the Offers set out in Part XV: "Terms and Conditions of the Offers"
Supplemental Private Placement Memorandum	the supplement to the Private Placement Memorandum to be published on or about 16 February 2016
Top-Up Offer	an offer to all Qualifying Shareholders and certain other investors to subscribe for additional New Shares up to an aggregate total of 4,166,666 New Shares
Top-Up Offer Entitlement	the entitlement of each Qualifying Shareholder to subscribe for up to 0.07 New Shares for every one existing Share held by such Qualifying Shareholder on the Record Date, pursuant to the Top-Up Offer (subject to the final size of the Top-Up Offer)
Total Capital Ratio	
Transaction	the Offers and Admission

UK	the United Kingdom of Great Britain and Northern Ireland
UK Corporate Governance Code or Governance Code	the UK Corporate Governance Code published by the Financial Reporting Council and dated September 2014, as amended from time to time
UK Government	the Government of the United Kingdom
U.S. or United States	the United States of America, its territories and possessions, and the states of the United States and the District of Columbia
U.S. Dollar or U.S.$	the lawful currency for the time being of the U.S.
U.S. Securities Act	United States Securities Act of 1933, as amended
VAT	within the EU, such taxation as may be levied in accordance with (but subject to derogation from) the Directive 2006/112/EEC and, outside the EU, any taxation levied by reference to added value of sales

Metro Bank PLC

Directors Remuneration Policy

CONTENTS

1 FRAMEWORK

This Policy outlines the overall approach Metro Bank PLC ("the Bank" or "Metro Bank") will adopt towards managing remuneration for Executive and Non-Executive Directors which is currently intended to apply from the date on which the shares in Metro Bank are admitted to trading on the London Stock Exchange. This will form the basis of the policy for which formal approval will be sought from shareholders at the Company's Annual General Meeting in 2017 (in line with Companies Act requirements). It is intended that the policy will formally apply for the three years beginning on the date of approval (although the Nomination and Remuneration Committee will consider the policy annually to ensure that it remains aligned with business strategy and the regulatory framework to which the Bank is subject).

It is the company's policy to honour any commitments made to a Director before they became a Director or before this policy took effect, even if it may not be consistent with this policy. For example Metro Bank will honour the stock awards made to the Executive Directors in relation to 'Project Revolution', the details of which are described in the Private Placement Memorandum and the listing Prospectus.

2 POLICY

Metro Bank offers banking, focused on the Customer, through unparalleled levels of service and convenience. We have a simple approach to compensation which reinforces our model by rewarding the right behaviours and outcomes for customers and the business, focusing on long term growth and discouraging unnecessary risk taking.

Our reward principles are to:

- Pay fair salaries and offer fantastic career and growth opportunities in an AMAZE(ING) culture
- Make everyone an owner; align them to our vision for the long term
- Reward people based on how Metro Bank performs and also on 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 – we do not offer excessive cash bonuses or linear incentives which can skew behaviours and encourage unnecessary risk taking

This policy document has been developed taking into account a number of regulatory and governance principles, including:

- The UK Corporate Governance Code 2014
- The Listing Rules
- The regulatory framework applying to Financial Services Sector (including the PRA Remuneration Code and provisions of CRD IV)
- The Companies Act 2006

3 COMPONENTS OF REMUNERATION FOR EXECUTIVE DIRECTORS

BASE SALARY

Purpose and link to strategy	We consider base pay as part of the total proposition that we can offer colleagues at Metro Bank, including career and growth opportunities and also 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 our model.
Operation	Base salaries for Executive Directors are normally reviewed annually by the Nomination and Remuneration Committee with any increase usually taking effect from 1 April in the following year. The following factors are taken into account, amongst others: - company culture and delivery - individual behaviours and delivery as per AMAZE(ING) Reviews - 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 such as inflation - affordability and available budget Subject to the maximum below, we position salary levels for Executive Directors within the median range of the market, with consideration also being given to total compensation and the long term growth focus of our model.
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, particularly where salary level is significantly below market for the size and scope of the role as the organisation grows.
Performance measures	Not applicable

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 Life Time Allowance or the annual pension tax free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit. The amount received, before deduction of tax and NI, is broadly equivalent in value to the contribution that would have been made to the GPPP by Metro Bank.
Maximum potential	The maximum employer contribution (including cash in lieu) is 10% of salary
Performance measures	Not applicable

BENEFITS

Purpose and link to strategy	Whilst we have a very simple approach to reward we also support the health, well-being and security of our Executive Directors through additional core benefits.
Operation	**Core benefits** • Life Assurance of 4 x salary • Private Medical Insurance for the Executive Director, their partner and children • Holiday – 30 days **Allowances** We may choose to pay Executive Directors allowances as follows: • An allowance 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 • In other circumstances, related to travel and relocation, as we determine appropriate **Legacy** Income Protection is also in place for the two Executive Directors. Benefit Basis is: 50% of Basic Annual Salary (at date of incapacity) up to State Pension Age for a period of 60 months. Maximum benefit is £350,000 Executive Directors also have access to voluntary employee funded benefits available to all colleagues.
Maximum potential	The maximum paid 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	Not applicable

VARIABLE REMUNERATION

Purpose and link to strategy	Our discretionary variable reward scheme is made up of cash and Share Options, or by exception shares. As a growth model organisation, Share Options form the main part of our variable compensation to encourage Executive Directors to focus on the long term and to think and behave like owners. The purpose of variable reward is to recognise Executive Directors for demonstrating our AMAZE(ING) Behaviours and also for achievement against business priorities for the year.
Operation	We operate a discretionary variable reward scheme based on behaviours and performance over the year which is paid in the form of cash and Share Options, or by exception shares, for all colleagues including Executive Directors. We do not operate separate and additional Long Term Incentive Plans. Share Options or shares vest over five years and satisfy regulatory requirements around the deferral of variable reward. They are not subject to further performance conditions on vesting since the award itself was subject to the achievement of performance conditions, but may be reduced, delayed or clawed back as per the notes below. Variable compensation relating to the previous performance year is communicated to Executive Directors in the following February or March, annually. Cash bonuses are then paid in March and Share Options are usually granted later that year. 70% of variable reward, or more, is deferred into Options or Stock. We use the Black Scholes method to inform the fair value of Options at the time of award and the total value of Options or Stock awarded will never be more than the variable remuneration deferred. Through our Bonus Exchange Scheme, Executive Directors may be allowed to 'exchange' part or all of the cash element of any variable compensation into their Metro Bank pension, or into immediate vesting Share Options. This scheme is covered by salary sacrifice arrangements in line with HMRC guidelines. Cash bonus may be exchanged for Options at an exchange 'price' approved by the Nomination and Remuneration Committee. The exchange price offered to Executive Directors is on the same basis as for all other colleagues. The total value of Options awarded via Bonus Exchange will never be more than the cash bonus forfeited.
Maximum potential	Total variable remuneration, including Share Options, for each Executive Director for any year will not exceed 200% of their base pay at award.

Performance measures	The variable reward pool for any year is based on the overall performance of the organisation in terms of culture and delivery in line with the Balance Scorecard, the components of which are set out under 'Performance Measures' below. We also consider risk adjusted financial performance in setting the overall pool. Executive Directors are awarded variable remuneration for a year on a discretionary basis taking into account the following factors over the year amongst others: • individual behaviours and performance based on their AMAZE(ING) Reviews – these performance targets are agreed at the beginning of the year and are reflected in the Balanced Scorecard for Metro Bank and are detailed in the notes section below • overall contribution to the culture, performance and success of Metro Bank We are focused on the right outcomes for customers in line with our model and do not 'incentivise' the delivery of any specific targets in a linear way.

Measures:

We set standards for all colleagues both on their behaviours and also for their delivery and performance. These are the high level measures for Executive Directors.

Behavioural Framework	**Balanced Scorecard Targets**
AMAZE(ING) Behaviours framework covers the following behaviours: • 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 colleague to create FANS • Nurture colleagues so they grow • Game change because this is a Revolution	Fall into the following five categories: • Financial • Risk • Operations and IT • Customers • People

Notes

- Malus and clawback apply to all deferred variable remuneration.
- The majority of our variable reward is focused on Share Options so we do not apply clawback to our relatively low cash bonuses. Deferred reward can be reduced or delayed and Share Options and, or, shares paid out clawed back including if there is a restatement of accounts or there is a material failure of risk management, a material downturn in financial performance or evidence of misconduct by the Executive Director.

4 ADDITIONAL CRITERIA FOR EXECUTIVE DIRECTOR REMUNERATION

Executive Directors are remunerated broadly in line with the same structures that apply across the wider population. The performance conditions for variable pay awards are very similar to those which apply to all colleagues.

5 CONSIDERATION OF PAY OF OTHER COLLEAGUES

Pay and employment conditions of other colleagues in the Bank were taken into account when setting the Remuneration Policy for Executive Directors. In particular, base pay of Executive Directors is limited by reference to colleague pay as described above. We do not specifically consult with colleagues when setting remuneration for Executive Directors.

6 CHANGES TO POLICY

As this is the first Remuneration Policy of Metro Bank, there is no policy against which changes in this policy can be identified.

7 APPROACH TO REMUNERATION WHEN RECRUITING EXECUTIVE DIRECTORS

When appointing a new Executive Director, the Nomination and 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 Committee has the flexibility to make compensatory awards to new Executive Directors which are intended to compensate the Executive Director for benefits they will lose as a result of joining Metro Bank.

These awards:

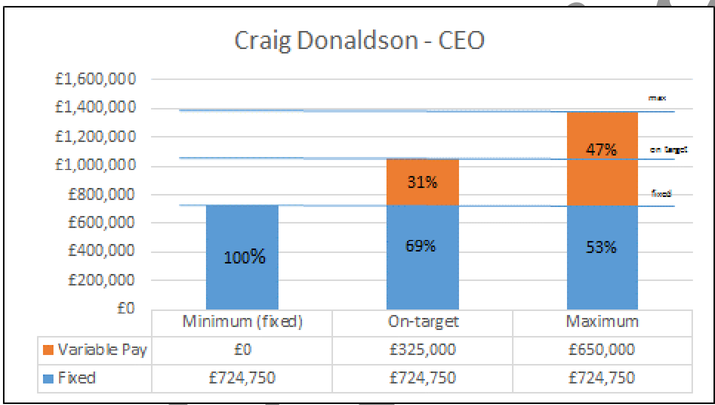
- will be made up of the same inputs as the normal variable compensation for Metro Bank colleagues and Executive Directors
- consider the value, at the time of grant, of the awards being lost
- will be in a similar form as the awards which are being lost, where possible
- vest over a similar or longer time period than the awards being lost; and
- are subject to comparable service and performance conditions and continued employment.

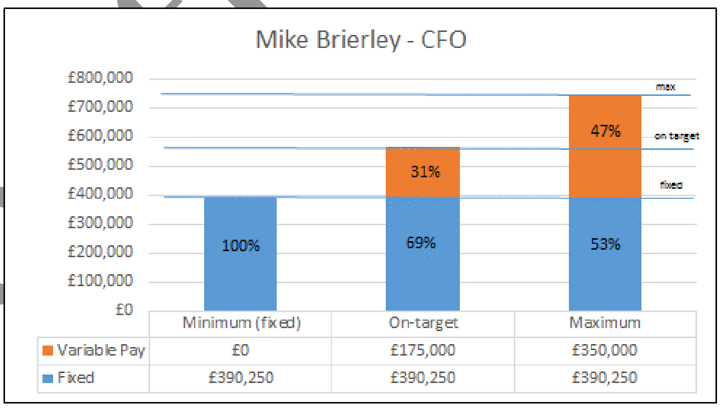
The limit on variable remuneration described above will not apply to these compensatory awards. The flexibility to offer a higher level of variable remuneration to new recruits is required to give the company flexibility when negotiating with potential new recruits.

8 REMUNERATION OUTCOMES

The graphs below illustrate the total remuneration each of the Executive Directors in office at the end of 2015 could receive for 2016 (payable in 2017) based on this policy (the first year in which this policy will apply) for minimum, on-target and maximum behaviours and performance. This is broken down into:

- The fixed element, which is:
  - base salary
  - pension contribution of 10%
  - benefits as outlined in the Policy Table for which we have assumed a value of 1.5% of salary
- The minimum (fixed), on-target and maximum potential annual variable remuneration that may be awarded





Notes

1) These illustrations include the proposed salary increases for 2016 which are due to be applied, subject to profitability
2) Mike Brierley currently receives a travel allowance of £10,182 per annum, which is not included as fixed pay in the graph as it will be consolidated into base pay as part of the next review of his salary.

9 REMUNERATION ON OR AFTER TERMINATION

For each component of pay, the amount paid to an Executive on termination will be determined as follows:

Component of pay	Determination
Salary/fees	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.
Variable pay	Variable remuneration may accrue during a notice period however the Executive Director has to be employed at the date that any variable remuneration is awarded in order to be eligible to receive it. No variable compensation is payable after termination and previous unvested variable reward deferred into shares or share options 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 continue on the same terms (subject to reduction and clawback as described in the Policy Table and Notes) and vest at the normal time provided 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 benefits unless this can be done without additional contribution from the Bank.

The circumstances of an Executive Director's leaving and their behaviours and performance will be considered by the Remuneration Committee when deciding whether it should, in the circumstances, exercise its discretion to treat them in the same way as a 'good' leaver or not. For example someone voluntarily leaving to join a competitor is unlikely to be treated as a good leaver. As a general principle we do not reward failure.

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.

10 COMPONENTS OF REMUNERATION FOR NON EXECUTIVE DIRECTORS

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. 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 their role. This fee is agreed by the Remuneration Committee. Fees for both the Non-Executive Directors and 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. The basic and additional fees are reviewed periodically, 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.
Stock	Non-Executive Directors may receive additional lump sum annual fees which are then used by Metro Bank to buy Shares on their behalf. The quantum of any award is determined by the Remuneration Committee subject to the limit above. After deductions for tax have been made from the additional cash fee awarded, it is used to buy shares on behalf of the Non-Executive Directors. These shares vest immediately and no lock up usually applies. The additional lump sum fees are included in the aggregate limit stated above.
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 i.e., in relation to attendance at Board and committee meetings are met by the Bank. The Chairman receives a monthly allowance of £10,000 as a contribution towards travel and living expenses. This is reviewed from time to time and has a maximum of £20,000 per month.
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 as Chair 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.

Service Contracts and Notice Period	The Chairman is appointed for a fixed term of two years which renews automatically on each anniversary. Either party can stop the automatic renewal up to two months before the renewal but the company must pay out the balance of the fixed term if it terminates his appointment. In accordance with the UK Corporate Governance Code the Chairman is subject to annual re-election. If he were not re-elected his engagement would be terminated without any notice but he would receive payment in lieu of notice for the balance of his fixed term. There is no provision for any other early termination compensation and no payment for loss of office. 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. Non-Executive Directors may be terminated without any notice, payment in lieu of notice, or other compensation where they are not re-elected.

ANNEX 2
SHAREHOLDER INFORMATION

This Annex (*Shareholder Information*) sets out certain information in relation to changes to the Articles, changes in corporate governance and restrictions on the transfer of Shares arising from the transition to becoming a premium listed company in the UK. This information may be of particular interest to U.S. Shareholders.

1 Articles

On Admission, it is proposed that the Articles will be replaced with a typical set of articles more appropriate for a listed company (the "**New Articles**"), for example making provision for Shares to be held in uncertificated form so that they can be traded through CREST. The main changes contained in the New Articles from a Shareholder perspective are set out below.

1.1 *Issue of Shares and pre-emption rights*

1.1.1 The New Articles will not contain pre-emption provisions and, instead, UK statutory rules requiring authority for issues of Shares and disapplication of pre-emption rights will apply.

1.1.2 Shareholders are being asked to approve at the General Meeting:

(i) advance authority to allot up to one-third of the Company's issued share capital, plus up to a further one-third to be used for pre-emptive offers only; and

(ii) disapplication of pre-emption rights (which would otherwise apply to all issues of Shares for cash) for up to 10 per cent. of the Company's issued share capital. Consistent with the statement of intention made by the Company in this Circular, the Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles, as updated in March 2015, and not to allot shares for cash on a non pre-emptive basis pursuant to the authority in this resolution (other than pursuant to a rights issue or pre-emptive offer):

(a) in excess of an amount equal to 5 per cent of the total issued ordinary share capital of the Company excluding treasury shares; or

(b) in excess of an amount equal to 7.5 per cent of the total issued ordinary share capital of the Company excluding treasury shares within a rolling three-year period, without prior consultation with shareholders,

and in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

1.1.3 While these authorities are being sought for a five year period, as is customary for UK listed companies, the Company intends that these authorities will be proposed to Shareholders annually for renewal at the Annual General Meeting.

1.1.4 Shareholders are being asked to approve at the General Meeting:

(i) advance authority to allot up to one-third of the Company's issued share capital, plus up to a further one-third to be used for pre-emptive offers only; and

(ii) disapplication of pre-emption rights (which would otherwise apply to all issues of Shares for cash) for up to 10% of the Company's issued share capital. Up to 5% of this authority can be used for general purposes with the rest being reserved for use in connection with acquisitions or specified capital investments.

1.1.5 While these authorities are being sought for a five year period, as is customary for UK listed companies, the Company intends that these authorities will be proposed to Shareholders annually for renewal at the Annual General Meeting.

1.2 *Transfer of Shares*

Listed Shares must be freely transferable, and, therefore, all current restrictions, pre-emption and tag-along rights relating to the transfer of Shares will be removed, except that U.S. holders of New Shares will be required to adhere to specific requirements in relation to transfers of their New Shares for a period of time following Admission as set out in more detail in paragraph 4 of this Annex (*Shareholder Information*).

1.3 *Removal of B Share provisions*

Admission will trigger the conversion of the B Shares, therefore, from Admission the Company will have a single class of Shares in issue.

1.4 *Related party transactions*

1.4.1 The Articles currently prohibit the Company from entering into related party transactions unless approved by either the audit committee or a majority of independent Directors. The Company intends to adopt in the terms of reference of the Audit Committee the same governance arrangements requiring that a related party transaction be approved by the Audit Committee or, failing which, a majority of the independent non-executive directors ("**INEDs**").

1.4.2 From Admission, the Listing Rules of the UK Listing Authority will govern the entry into related party transactions by the Company. Unless the transaction is small or of a customary nature, prior approval of at least 50% of the Company's independent Shareholders will be required for related party transactions in respect of which a detailed circular will be sent to Shareholders and the relevant agreement will be made available for inspection.

1.4.3 Therefore, the New Articles do not contain provisions relating to related party transactions.

1.5 *Matters requiring Shareholder approval*

1.5.1 Currently, the Articles provide that the Company must receive 75% independent Shareholder approval for: (i) significant business changes; (ii) acquisitions and disposals above £20 million that are outside the ordinary course of business; and (iii) a merger or sale of substantially all of the Company's business.

1.5.2 From Admission, the Listing Rules will require prior approval of at least 50% of the Company's Shareholders for significant transactions – generally, this means large transactions by reference to the relative size or profitability of the Company versus the asset or business being acquired or disposed of, as well as certain specific types of transaction. Where Shareholder approval is required, a detailed Shareholder circular will need to be sent to Shareholders containing information on the proposed transaction, with the relevant agreement being made available for inspection in advance.

1.5.3 Other smaller (but still significant) transactions will need to be announced to the market with mandatory content requirements for such announcements.

1.5.4 Therefore, the New Articles do not contain provisions relating to significant transactions.

1.6 ***Information rights***

1.6.1 The New Articles will not contain information rights for Shareholders and, as a result, Shareholders will no longer have a right to receive quarterly financials (as only annual and half year information is required to be disclosed by listed companies). Shareholders will receive the same information (and at the same time) that is disclosed to the market as a whole.

1.6.2 The Company will no longer be able to provide copies of business plans or budgets to Shareholders or provide information to Shareholders on a selective basis. Any significant information that arises in relation to the Company will need to be communicated as soon as possible to the market as a whole.

2 Corporate governance

2.1 ***The Code***

2.1.1 The UK Corporate Governance Code (the "**Code**") contains best practice recommendations for UK listed companies. The Code constitutes guidance rather than law but the Listing Rules require premium listed companies (as the Company will be) to either comply with the Code and describe in its annual report how it has done so or, if it has not complied, provide a reasoned explanation as to why it has not done so.

2.1.2 The main principles of the Code deal with the topics of leadership, effectiveness, accountability, remuneration and relations with shareholders. The Code sets out guidelines on the composition of boards and board committees and the duties of directors (and, in particular, the Chairman, senior independent director and other non-executive directors).

2.1.3 The Board is committed to the highest standards of corporate governance. From Admission, the Board intends to comply with the requirements of the Code. The Company will report to Shareholders on its compliance with the Code in accordance with the Listing Rules.

2.2 ***Board Composition and Roles of Directors***

2.2.1 The Code emphasises the importance of boards having an appropriate balance between executive and non-executive directors (and, in particular, INEDs). It provides that at least half the board (not including the Chairman) should comprise INEDs (this had been a requirement of the Articles in any case).

2.2.2 The Code also provides that the roles of Chairman and Chief Executive Officer should be separate and that there should be a clear division of responsibilities between the two positions.

2.2.3 The Code focuses on leadership, in particular, the role of the Chairman in heading up the board and the responsibility of the non-executive directors to provide constructive challenge and help develop strategy. The senior independent director should act as a sounding board for the Chairman and as an intermediary for other directors, as necessary.

2.2.4 Since 2010, the Code has required directors to be put up for re-election annually and, as a result, re-election resolutions for each director have become part of the ordinary business at each annual general meeting. The Company intends to comply with this requirement.

2.3 *Remuneration*

2.3.1 Shareholders of listed companies have a binding vote on remuneration policy at the annual general meeting at least every three years and have an annual advisory vote on directors' pay in the preceding year. Metro Bank's current Directors' Remuneration Policy is set out in Annex I of this Private Placement Memorandum and will be subject to a Shareholder vote at the 2017 annual general meeting.

2.3.2 The Directors' Remuneration Policy mainly focuses on the components of, and criteria applicable to, the remuneration of the Executive Directors but also describes the fee arrangements for Non-Executive Directors.

2.3.3 Detailed disclosure in relation to remuneration will be required to be contained in the annual report.

2.3.4 In addition to these statutory requirements, the Code emphasises the need for performance-related pay to be aligned with the long-term interest of the company and its risk policies and systems. The use of non-financial metrics to measure performance is recommended, if appropriate, and companies should consider clawing back variable pay in certain circumstances.

2.4 *Relations with Shareholders*

2.4.1 The Code provides that there should be a dialogue with shareholders based on the mutual understanding of objectives and that it is the responsibility of the board as a whole to ensure that this happens. The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.

2.4.2 The board should use general meetings to communicate with investors and to encourage their participation. Where a significant proportion of votes are cast against a resolution at a general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.

3 Disclosure of significant holdings

3.1 From Admission, a public disclosure obligation will be triggered under the UK Disclosure and Transparency Rules ("**DTRs**") where a Shareholder reaches, exceeds or falls below a holding of 3% or more of the voting rights attached to the Shares (or of financial instruments from which a similar economic effect is derived). Once this obligation has been triggered, the Shareholder will be required to make further disclosures for any percentage point change in the holding.

3.2 Any such notification is made in the first instance to the Company, which is, in turn, required to make a market announcement of the notification.

3.3 The rules in relation to calculations for the purposes of DTR disclosure are complex (and include rules relating to aggregation of different holdings), and any Shareholder to whom this may apply should consult with his or her own advisers to ensure that he or she is in compliance with the rules.

4 Certain transfer procedures that will apply following Admission

4.1 As the Company is currently unlisted, the Existing Shares are all held in certificated form, i.e., represented by share certificates. Once the Company becomes listed, it will be possible to hold Shares in uncertificated (or dematerialised) form in the UK CREST system (subject to the information set out below in relation to New Shares). This means that such Shares would exist in electronic form only, making trading easier and quicker and avoiding issues with lost or damaged share certificates.

4.2 New Shares sold to Shareholders *outside the United States* will be credited to each Shareholder's (or its nominee's) account in dematerialised form (except where such Shareholders do not provide CREST account details or choose on their Application Form to receive certificated Shares. These New Shares can be resold without restriction from Admission.

4.3 New Shares sold to Shareholders *in the United States that are "qualified institutional buyers"* (as defined in Rule 144A of the Securities Act) ("**QIBs**") will be credited to such Shareholder's or its nominee's account in dematerialised form (except where such Shareholders do not provide CREST account details or choose on their Application Forms to receive certificated Shares).

4.4 Such New Shares will be deemed "restricted securities" (as defined in Rule 144 of the Securities Act). Accordingly, such Shareholders will be required to undertake and agree that for so long as such Shares are "restricted securities" (which will be for a minimum one-year period from the date of Admission), they will only reoffer, resell or transfer the New Shares outside the United States in accordance with Regulation S under the Securities Act.

4.5 New Shares issued in dematerialised form will be eligible for trading through CREST on the London Stock Exchange. Conditional trading in Shares on the London Stock Exchange is expected to commence on an if-and-when-issued basis on or about 24 February 2016 with Admission expected to take place on or about 29 February 2016. All dealings in the Shares prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.

4.6 New Shares that are sold to Shareholders *in the United States that are not QIBs* will be delivered in certificated form. Such New Shares will be deemed "restricted securities" (as defined in Rule 144 of the Securities Act). For so long as such New Shares are "restricted securities" (which will be for a minimum one-year period from the date of Admission) such New Shares may only be re-offered, resold or transferred outside the United States in accordance with Regulation S under the Securities Act.

4.7 New Shares in certificated form will not be eligible for trading through CREST on the London Stock Exchange. Shareholders that hold Shares in certificated form are, therefore, advised to speak to their brokers in advance of executing a sale or transfer of their Shares in order to arrange for such Shares to be dematerialised and held through CREST.

5 Tax Considerations

Certain tax considerations relating to the Transaction that will be relevant to U.S. and UK Shareholders are set out in Part XX (*Taxation*) of this Private Placement Memorandum. This information is intended only as a general guide to the current UK and U.S. tax positions applicable to holders of Shares. Prospective investors are advised to consult with their own independent professional tax advisers prior to participating in the Offers.