



Pillar 3 Disclosure

31st December 2015

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1. Introduction

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

The European Union ('EU') implemented the Basel III proposals published in December 2010 through the Capital Requirements Regulation ('CRR') and Capital Requirements Directive (together referred to as 'CRD IV') which came into force on 1 January 2015 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulation Authority ('PRA'). The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. CRD IV also made changes to rules on corporate governance, including remuneration, and introduced standardised regulatory reporting within the EU.

The Basel framework consists of three pillars:

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

2. Scope

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

This Pillar 3 report is based upon the Bank's Financial Statements for the year ended 31st December 2015.

Basis and frequency of disclosures

This document sets out the 2015 Pillar 3 Disclosures for the Group. The purpose of this disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of risks faced by the bank. This is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8). The disclosures may differ from similar information in the Annual Report and Accounts prepared in accordance with International Financial Reporting Standards ('IFRS'); therefore, the information in these disclosures may not be directly comparable with that information.

Unless otherwise stated, all figures are as at 31/12/2015, the Group's financial year end, with comparative figures for 31 December 2014 where relevant. Pillar 3 Disclosures are published annually, and concurrently with the Annual Report and Accounts in accordance with regulatory guidelines.

2.1 Changes to disclosure requirements

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

The bank has continued to expand and enhance disclosures made in accordance with the Enhanced Disclosure Task Force's (EDTF) recommendations.

Format of Leverage Ratio disclosure: our Leverage Ratio is disclosed in section 5.1, using the EBA prescribed templates published in June 2014. The leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.

3. Risk Management

3.1 Risk Management Objectives

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

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

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

3.2 Principal Risks

The principal risks are:

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

Both Liquidity Risk and Interest Rate Risk management are undertaken by the bank's treasury department and overseen by the Chief Financial Officer, the Treasury Risk function, Asset and Liability Committee and the Risk Oversight Committee.

- **Conduct Risk** - the risk of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.
- **Regulatory Risk** - the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to adhere to applicable laws, regulations and supervisory guidance.
- **Operational Risk** - the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events.
- **Financial Crime Risk** – The risk of financial loss or reputational damage resulting from internal or external fraud, money laundering, counter terrorist financing, bribery and corruption, or non-compliance to sanctions.

The principal risks are covered in more detail below.

3.3 Risk Appetite

The Bank maintains a risk appetite for each of the key risks, and performance against the risk appetite statements is monitored and reported on a monthly basis to the Board and at least quarterly to the Risk Oversight Committee.

Individual risk appetites are set by the Board based on recommendation from the Risk Oversight Committee and implemented by the Executive Risk Committee. The Chief Risk Officer is responsible for ensuring the Bank operates within the stated risk appetites.

Credit Risk Appetite

The Bank aims to have a well-balanced loan portfolio, through the economic cycle, that weighs risk and reward appropriately in lending decisions. The Bank has detailed lending policies to ensure credit risk-taking is based on sound credit risk principles. Limits are set for each borrower together with large exposure limits consistent with prudential regulatory rules. The Bank is also mindful of and measures concentration risk, loan arrears and bad debts. For quantification of credit risk, Metro Bank uses the Standardised Approach assessed under Basel II, Pillars 1 and 2.

Market Risk Appetite

The Bank aims to minimise earnings shocks or surprises. The Bank does not undertake proprietary trading activities and only holds high rated investment securities. Management monitors exposures to price risk and movements in investment value on a regular basis.

Liquidity Risk Appetite

The Bank aims to hold a prudent level of liquidity to cover unexpected outflows such that the Bank would be able to meet its financial commitments for an extended period. The Bank assesses the level of liquidity necessary to cover both systemic and idiosyncratic risks and an appropriate liquidity buffer is maintained at all times. The Bank also maintains a balance sheet structure that limits reliance on potentially volatile sources of funding.

Interest Rate Risk Appetite

The Bank aims to minimise interest rate risk and has a policy to ensure that assets are matched with liabilities of a comparable interest basis. The bank is prepared to accept a change in economic value of the balance sheet of not greater than £20 million, given a 2% adverse change in interest rates.

	Risk Management Framework						
Principal risk:	Credit	Operational	Liquidity	Market & Interest rate	Financial Crime	Regulatory	Conduct
Control document:	Credit policy	Enterprise Risk Management policy	Liquidity policy Treasury & large exposures policy	Treasury Instruments and Dealing Policy Interest rate risk policy	Anti-money laundering policy Sanctions policy	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	ALCO	ALCO	Executive Risk Committee	Executive Risk Committee	Executive Risk Committee
Oversight:	Executive Management, Board, Audit and Risk Oversight Committee						

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

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

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

3.5 Risk Oversight, Monitoring and Reporting

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



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

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

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

3.6 Risk Governance Structure

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

3.7 Committee Structure

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

Board

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

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

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

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

Board Committees

Audit Committee

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

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

The Committee:

- Monitors the integrity of the financial statements of the Bank, reviewing significant financial reporting issues and any judgements which they contain.
- Monitors and reviews the effectiveness of the Internal Audit function and approve the appointment or removal of the Head of Internal Audit.
- Oversees the relationship with the External Auditor including reviewing the engagement terms and fees, monitoring their independence and quality control as well as the audit findings, management letter and audited accounts.

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

Risk Oversight Committee (ROC)

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

The Committee is chaired by a Non-Executive Director, and comprises a further three Non-Executive Directors. The Chief Executive Officer, Chief Financial Officer and Chief Risk Officer also attend.

The Committee:

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

The Chair of the Risk Oversight Committee meets with the Chief Risk Officer and other senior leaders of the Bank on a regular basis throughout the year to discuss risk management and control activity.

Nomination Committee

The Committee:

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

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

Remuneration Committee

The Committee:

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

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

Chief Executive Management Committees

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

- Assets and Liabilities Committee (ALCO)
- Risk
- Credit Sanctioning

- Credit Policy and Appetite
- Executive Committees

Assets & Liabilities Committee:

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

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

It is chaired by the Chief Financial Officer, and attended by the Chief Executive Officer, Chief Commercial Officer, MD Commercial Banking, MD Regional Banking, MD Business and Private Banking, Chief Operating Officer, Chief Risk Officer, and the Treasurer. The Chairman of the ROC is a standing guest.

Executive Risk Committee

The 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 the Bank's Enterprise Risk Management framework.
- Oversight of the performance of the KRIs.

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

Credit Sanctioning Committee

The Committee is responsible for:

- Sanctioning of higher value lending requests, and any exceptions to policy
- Monitoring the Bank's overdue accounts
- Granting and reviewing delegated lending authorities

The 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 & Appetite Committee

The Committee meets bi-monthly and is responsible for:

- overseeing the Bank's credit risk policies,
- reviewing proposals on risk appetite,
- approving significant exceptions to policy
- monitoring portfolio performance against the Bank's set risk appetites and, (with the Chief Financial Officer) approving impairment levels.

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

Executive Committees

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

- **Audit:** reports on completed audits and the progress of existing audits, as well as audit findings.
- **Trading Performance:** is responsible for reviewing trading performance across each of the business lines within Metro Bank.
- **Finance:** is responsible for reviewing performance across actual and forecasted costs, income, capital, and provisions.
- **Voice of the Customer:** provides direction on actions required to ensure Metro Bank delivers Amazing Customer service and consistently fair Customer outcomes.
- **Voice of the Colleague:** is responsible for embedding and strengthening Metro Bank's unique culture through people interventions, and for reviewing the performance of key colleague metrics.
- **Change & Digital:** is responsible for prioritising and reviewing progress of current in-flight change initiatives, and approving submitted business cases.
- **Operations & IT:** is responsible for reviewing the IT and operational performance across Metro Bank, agreeing strategic direction and identifying any areas requiring remedial action.

4. Capital Resources

As at 31 December 2015, the Bank's capital base was made up of £300m of Tier 1 capital. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA's regulatory document GENPRU 2.2.83 R and audited reserves.

4.1 Capital Resources

Tier 1 capital based on the 31 December 2015 audited accounts is as follows:

Common Equity Tier 1	CRD IV	
	2015	2014
	£m	£m
Share Capital	629	629
Profit and Loss reserve	-213	-164
Available for Sale reserve	-12	-4
Other reserves	-3	2
Intangible Assets	-54	-35
Deferred Tax asset	-53	-44
CET1	294	384
Total Capital	294	384

The Bank uses the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk. Under Basel II, the Bank must set aside capital equal to 8% of its total risk weighted assets to cover its Pillar 1 capital requirements.

The Bank must also set aside additional Pillar 2 capital to provide for additional risks. This is calculated by multiplying the Pillar 1 capital by the Individual Capital Guidance (ICG) ratio.

As at 31 December 2015, the Bank's capital base was in excess of the minimum required under the ICG.

5. Leverage ratio

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

Metro Bank's leverage ratio at 31 Dec 2015 2015 was 5%; it expects to be able to meet the target of remaining above 4%.

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

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

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

5.1 Leverage Ratio Common Disclosure

Basel III Leverage Ratio Calculation	£m	£m
	Dec-15	Dec-14
Share Capital / Premium	629	629
Retained Earnings	-164	-123
Year to date losses	-49	-41
AFS reserve	-12	-4
Other Reserves	3	7
Intangible Assets	-54	-35
DTA	-53	-44
Common Equity Tier 1	300	389
Total Assets	6,041	3,582
Pipeline Lending exposure	67	51
Forward contracts & FX Mismatch	39	10
Total Exposure	6,147	3,643
Regulatory Leverage Ratio	5%	11%

The Basel Committee has implemented a monitoring period which runs to January 2017, during which time a minimum leverage ratio of 3% should apply. This limit will be reassessed in 2017 before becoming mandatory in 2018. The FPC provided additional clarity on the medium term leverage ratio requirements of UK banks and building societies in their review of the leverage ratio published in 2014. The FPC confirmed that all banks and building societies, including Metro Bank, would have to meet a 3% minimum leverage ratio at all times.

6. Capital Adequacy

As part of the Pillar 2 approach to capital adequacy, the Board is required to consider all material risks which the firm faces and to determine whether additional capital is required in order to provide additional protection to depositors and borrowers, and to ensure the Bank is sufficiently well capitalised to withstand

a severe economic downturn. In addition, a fixed sum is identified as a capital planning buffer that the Bank should hold, but which is available for use should adverse circumstances materialise that are outside its normal and direct control.

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

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

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

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

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

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

7. Principal Risks: Credit Risk

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

Credit risks associated with lending are managed through the use of detailed lending policies which outline the Bank's approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. The Bank maintains a dynamic approach to credit risk management, and will take necessary steps if the credit performance deteriorates due to economic or sector-specific weaknesses. The Director of Credit Risk and Analytics is responsible for development and oversight of the lending policies, and for ongoing monitoring and analysis of portfolio performance within policy and, therefore, against risk appetite thresholds (including concentration limits). The Credit Risk and Analytics team also performs periodic stress tests, using a range of macro and micro economic data to assess the resilience of the lending portfolios to a range of external shocks.

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

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

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

7.1 Credit Risk Exposures

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

The numerical disclosure below shows the total amount of exposures at 31 December 2015, analysed by different type of exposure classes, as follows:

Standardised Credit Risk	£m	£m	£m	
	Asset Value	Asset Value	RWA	RWA %
	2014	2015		
Cash and balances with the Bank of England	181	218	0	0%
Loans and advances to banks	35	64	13	20%
Investments	1,611	2,000	601	10%-100%
Retail and Business Lending	1,596	3,549	1,362	35%-150%
Fixed and other assets	167	219	219	100%
Past Due >20%	2	8	4	50%
Impaired Secured				
Contingent Assets				
Secured & unsecured lending facilities	305	468	63	20% - 100%
Total	3,896	6,525	2,261	

7.2 Credit Risk – Lending

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

Residential Mortgages

All applications are 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.

The Bank has a conservative approach to lending, will typically only lend up to up to 85% LTV, although our policy does allow up to 90% LTV. We also undertake a full valuation on all properties which acts as security. Valuation reports are produced by an experienced panel of qualified external valuers.

The 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 and this has resulted in a portfolio of low LTV loans to good quality borrowers. A team of experienced underwriters carefully review all applications.

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

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

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

7.3 Credit Risk – Treasury

Liquidity

Portfolio and Investments

Credit risk of bank and treasury counterparties is controlled through the Bank's Treasury Instruments and Dealing Policy which limits the maximum exposure by entity where the Bank can deposit or invest. All institutions need a sufficiently high credit rating, as detailed within the Policy. The bank also performs stress testing to ensure that its Treasury credit risk exposures are sufficiently robust. Credit limits are approved and monitored by the bank's ALCO.

Non-performing Loans and Provisioning

Metro Bank maintains a provisioning policy which applies to all lending activities within the Bank. A small amount of provision is raised against performing balances (good book) once they are on our balance sheet and collective provision is raised against any non-performing loans that fall into arrears. 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 on a regular basis and detailed credit reports are submitted for review to the monthly Executive Risk Committee and to the Risk Oversight Committee on at least a quarterly basis.

At the end of 2015 there was a general doubtful debt provision of £7.5m.

8. Principal Risks: Liquidity Risk

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

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

Through the Individual Liquidity Adequacy Assessment (ILAA) process, the 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 the Bank to consider all material liquidity risks in detail and the ILAA has documented the Bank's analysis of each key liquidity risk driver. Liquidity risks are specifically considered by the ALCO each month. Further information on key liquidity risks is given below.

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

8.1 Liquidity Risk Drivers

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

Retail Funding Risk

Retail funding risk is the primary liquidity risk driver for Metro Bank, and this would occur if there was a concern by depositors over the current or future creditworthiness of the Bank. Although the Bank seeks to operate in such a way as to protect depositors, an extremely high proportion of deposits are protected by the Financial Services Compensation Scheme (FSCS), which protects £75,000 of customer deposits.

Wholesale Funding

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

Payments Systems

Metro Bank is not a direct member of the UK payments system. However, in the event there are problems with one of the payment systems, the Bank has access to payment facilities with which to make payments to cover liabilities when due.

Pipeline Loan Commitments

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

Cash Collateral Requirements

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

Contingency Funding Plan

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

9. Principal Risks: Interest Rate Risk

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

Interest rate risk in the banking book consists of asset-liability interest rate gap risk and basis risk.

10. Principal Risks: Market Risk

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

The Bank does, however, hold a portfolio of investment securities. Some of these securities are exposed to market price movements should any of the securities be sold. Monthly prices are obtained to ensure the Bank is aware of any material diminution in value.

11. Principal Risks: Regulatory Risk

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

In assessing this risk management considers the control mitigants in place, and the advantages inherent in having no legacy issues to resolve. Key mitigants are a strong, appropriately-resourced risk function, the simplicity of the Bank's product range and a culture of delivering unparalleled levels of service and

convenience, to ensure the consistent delivery of good Customer outcomes; all of which have been positively acknowledged by the FCA in its Firm Evaluation of Metro Bank. Additional controls include regular reporting of regulatory compliance oversight by the Executive Risk Committee and Risk Oversight Committee.

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

12. Principal Risks: Conduct Risk

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

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

Key controls include:

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

13. Principal Risks: Financial Crime Risk

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

Key controls include:

- Financial crime training included in the mandatory training for all colleagues, and enhanced in customer facing roles

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

14. Principal Risks: Operational Risk

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

Metro Bank aims to accept a 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 the Bank's operational risk appetite. As part of the ICAAP, the Bank's key operational risks were assessed and quantified.

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

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

15. Other Risks

15.1 Concentration Risk

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

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

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

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

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

Concentration risk of treasury assets is managed and controlled through the counterparty placements policy.

15.2 Insurance Risk

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

15.3 Pension risk

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

15.4 Residual Value Risk

The Bank does not take residual value risk.

15.5 Remuneration

The Bank's Remuneration Committee ensures that it operates a remuneration process and implements a remuneration policy which is consistent with the principles of SYSC 19A and the Remuneration Code.

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

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