



CORPORATE GOVERNANCE REPORT



An introduction from our Chairman

A strong governance framework supporting the long-term success of the Company

In this section of our inaugural Annual Report as a listed company we have set out our approach to corporate governance and provide further information on how the Board and its Committees operate.

Metro Bank's ordinary shares were admitted to trading on the Main Market of London Stock Exchange on 10 March 2016, and, as a company with a premium listing, we are required to comply with the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in September 2014 ("the Code") or to explain any areas of non-compliance and our reasons for these.

We have also taken into account the updated UK Governance Code published by the FRC in April 2016 and the changes relating to Audit Committees. We believe we already comply with these changes and will report on them fully in next year's Annual Report. Prior to Listing, we were already required to operate under the strong regulatory framework applicable to the financial services sector in the UK and this had fostered a strong compliance culture throughout our team of highly-motivated and engaged colleagues. At Listing we had already taken sufficient steps to confirm that we were fully compliant with the Code and we continue to review and strengthen our governance framework to ensure that it continues to support the long-term success of the Company.

As a Board, we support management and help develop strategy through effective debate and challenge. I set the Board's agenda and ensure that we devote sufficient time to our strategic vision. The Board has an open culture which encourages challenge, and we have the appropriate mix of skills and experience to be effective. All Non-Executive Directors are independent and, by encouraging open and frank discussion, we ensure that no individual Director or group of Directors can dominate discussion or decision-making. The Board members' experience is across a wide range of sectors, including finance, banking and retail, and each brings a wealth of experience and skills to bear on all aspects of the management of the Company.

Biographical details for all Directors, which include a summary of their particular experience, skills and qualifications, are set out on pages 32 and 33 of this Report. Senior management are regularly invited to attend Board and Committee meetings to present and this provides further opportunities for communication, challenge and support between the Board and management.

I am pleased to report that during the period under review the Company has fully complied with the Code.

Vernon W. Hill, II
Chairman
2 March 2017

LEADERSHIP

The role of the Board

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

The composition of the Board

The Board currently consists of the Non-Executive Chairman, two Executive Directors (the CEO and CFO) and seven Non-Executive Directors. The Company considers the Non-Executive Directors to be independent. This is compliant with the Code, which requires that at least half of the Directors of a premium listed company should be independent and free of any business relationships that could compromise the exercise of independent and objective judgement.

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

Division of responsibilities between the Chairman and Chief Executive Officer

The Board has formally documented the separate roles and responsibilities of the Chairman and Chief Executive. Vernon W. Hill, II, the Chairman, leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Company and ensures the links between the Board and management and between the Board and shareholders are strong. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction.

Craig Donaldson, the Chief Executive Officer, is responsible for the day-to-day management of the Bank's operations, for recommending the Bank's strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported in decision-making by the Executive Leadership Team. A summary of the key areas of responsibility of the Chairman and the Chief Executive Officer is set out opposite:



Division of responsibilities between the Chairman and Chief Executive Officer

ROLE OF CHAIRMAN

The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and the setting of the Board's agenda. His responsibilities are:

To run the Board effectively by ensuring meetings are scheduled well in advance and with appropriate frequency, and to ensure that the Board agenda is forward-looking and reflects the important issues facing the Bank.

To ensure the frequency and depth of evaluation of the performance of the Board and its Committees is in compliance with best practice and appropriate action, if required, is taken on the results of any such evaluation and to confirm that an individual's performance continues to be effective.

To ensure, with the support of the Nomination Committee, an appropriate balance is maintained on the Board as regards the number of Executive and Non-Executive Directors with the skills, experience and expertise to provide effective guidance, challenge and oversight to the Board and the Executive Leadership Team.

To ensure there is appropriate delegation of authority from the Board to the Executive Leadership Team.

To promote a Board culture with an open exchange of views, challenge and debate, in particular by facilitating the effective contribution of Non-Executive Directors; and ensuring constructive relations between Executive and Non-Executive Directors that provides a genuine check and balance on the Executive Directors and holds them accountable.

To ensure, with the support of the Company Secretary, compliance with Board-approved procedures, such as the Terms of Reference for the Board, including its Committees, incorporating the matters reserved to the Board and the Terms of Reference of each of the Board Committees, and to ensure that they are reviewed by the Board at least annually.

To maintain a dialogue with the Chief Executive Officer and to provide support and advice from time to time on the implementation of the business strategy agreed by the Board, as well as important issues facing the Bank.

To ensure that the Board reviews all key metrics in line with the agreed business plan and ensure that stressed scenarios are always in place to support prudent capital planning, liquidity, solvency, recovery and resolution and risk management generally.

To provide advice, support and leadership to the Chief Executive Officer and guidance as appropriate to other key senior management across the business.

To ensure effective communication by the Bank with its shareholders and engage directly as required on matters of governance, remuneration and strategy with major shareholders.

To ensure that shareholders' views are communicated to the Board as a whole so that all Directors develop an understanding of their views.

To oversee the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of employees.

ROLE OF CHIEF EXECUTIVE

The Chief Executive Officer reports to the Chairman and to the Board directly and is responsible for all executive management matters of the Bank. His responsibilities are:

To develop and propose the strategy direction of the Bank, annual budget and business plans and commercial objectives to the Board.

To examine all major business investments and major capital expenditure and make recommendations to the Board and to identify and execute acquisitions and disposals subject to formal Board approval.

To ensure that the development needs of the Executive Directors and senior management are identified and met.

To advise and make recommendations in respect of management succession planning for the Executive Directors and ensure that the Bank develops strategies and makes plans for the succession and replacement of key personnel. To make recommendations on Remuneration policy, executive remuneration and terms of employment for the Executive Leadership Team.

To lead the Executive Leadership Team in the day-to-day management of the Group to pursue the successful achievement of the Bank's commercial objectives and execution of strategy and to ensure that Board decisions are implemented effectively.

To be open, honest and transparent and willing to engage in constructive challenge and debate with the Non-Executive Directors.

To ensure, with the support of the Company Secretary, that the Executive Directors comply with the terms on which matters are delegated by the Board and the Terms of Reference of Board Committees and to ensure matters outside the authority of the Executive Directors are escalated to the Board.

To ensure the Chairman is alerted to potential contentious or sensitive issues affecting the Bank.

To manage the Bank's risk profile, with the support of the Chief Risk Officer, in line with the risk appetite approved by the Board and to ensure that appropriate internal and prudential controls are in place, in particular with regard to capital and liquidity.

To maintain a dialogue with the Chairman and the Board on important and strategic issues facing the Bank.

To be the primary relationship with institutional shareholders and ensure effective communication with all shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to the Board where appropriate.

To be the primary contact with the Bank's regulators and to foster an open and honest relationship with the regulators and compliance with prudential and conduct requirements.

To oversee the development of Bank policies for Board approval and oversee the implementation of them including policies relating to insider information, share dealing, whistleblowing, anti-bribery and anti-money-laundering.

To promote a Bank culture that fosters a prudent, safe and sound business that has long-term sustainability and conducts itself with appropriate standards and behaviours, whilst placing customers at the forefront of everything the Bank does.



CORPORATE GOVERNANCE REPORT CONTINUED

Non-Executive Directors

The role of the Non-Executive Directors is to constructively challenge proposals on strategic direction. Each Non-Executive Director brings specific sector experience and knowledge to the Board and its Committees. Their contributions provide independent views on matters of strategy, performance, risk and conduct. The Non-Executive Directors have been appointed for an initial two-year term but are re-elected on an annual basis.

Senior Independent Director

Ben Gunn is the Senior Independent Director ("SID"). The SID's role is to act as a sounding board for the Chairman and to serve as an intermediary for Directors when necessary.

The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer. The SID will attend meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of their issues and concerns if contact with the Chairman, Chief Executive Officer or Chief Financial Officer is inappropriate. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chairman and conducts the Chairman's annual performance evaluation.

HOW THE BOARD OPERATES

Governance framework

The Board has a coherent corporate governance structure with clearly defined responsibilities and accountabilities designed to safeguard and enhance long-term shareholder value and provide a robust framework in which to deliver the Company's strategy.

Matters reserved for the Board

The Board is responsible for the Company's strategic direction and for its overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which is reviewed annually. These include matters relating to the decisions concerning the Bank's strategic aims and long-term objectives, the structure and capital of the Group,

financial reporting and controls, risk management and various statutory and regulatory matters. The Board is also responsible for the effective communication with shareholders, any changes to Board or Committee membership or structure, and has authority to recommend to shareholders the Bank's Directors' remuneration policy. The Board delegates responsibility for day-to-day management of the business to the Chief Executive and sets out the basis for delegation of authorities from the Board to its Committees.

Board decisions and activity during the year

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

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

In the months following Listing some of the key areas the Board has focused on are:

- Strategic direction
- Risk monitoring and review
- Governance and compliance
- Annual and quarterly reporting
- Policy review and update
- Property and store expansion
- Investment proposals
- Regulatory and external affairs
- Creating FANs

Corporate governance structure



- Board and Board sub-Committee.
- Chief Executive Officer and Executive Management Committees.



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

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

Board Committees

The Board has delegated specific responsibilities to each of the Audit, Risk Oversight, Nomination and Remuneration Committees, and reports for each are set out on pages 43 to 51. Each Committee has written Terms of Reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee Terms of Reference are available on the Company's website www.metrobankonline.co.uk.

The Terms of Reference of each Committee were reviewed at Listing and are kept under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best-practice as well as being reviewed formally on an annual basis by the relevant Committee and the Board. Each Committee is comprised of Non-Executive Directors of the Company. Any future changes to the Committees will be made after the review and recommendation of the Nomination Committee.

Effectiveness

The skills and experience of the Board are set out in their biographical details on pages 32 and 33. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

Induction of new Directors

All the Directors have been members of the Board since the Company's Listing in March 2016. It is intended that, in the future, on joining the Board, new Directors will undergo a formal programme, tailored to the existing knowledge and experience of the Director concerned. Non-Executive Directors will meet the Chairman and the Chief Executive as part of the Nomination Committee's selection process and then again on appointment for a thorough briefing on all relevant aspects of the Company. They will also meet the Company Secretary, senior management and any relevant advisers for briefings on their responsibilities as Directors and on the Company's business, finances, risks, strategy, procedures and the markets in which the Company operates.

All Directors have been advised of the time required to fulfil the role prior to appointment and confirmed they can make the required commitment. This requirement is also included in their letters of appointment. The Board is satisfied that the Chairman and each of the Non-Executive Directors is able to devote sufficient time to the Company's business. There has been no change in the Chairman's other time commitments since Listing.

Performance

The Board will undertake an evaluation of its performance and that of its Committees and individual Directors annually, with an evaluation process being externally facilitated at least every three years. The first such external evaluation was carried out in 2014, facilitated by Deloitte. A number of recommendations for improvements were agreed by the Board. Overall, it was concluded that the Board operated effectively. The next externally facilitated evaluation will take place in 2017.

Board meetings

The Board met ten times in 2016.

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

The following table shows Directors' attendance at Board meetings in 2016:

	Numbers of meetings attended
Vernon W. Hill, II	10/10
Craig Donaldson	10/10
Michael Brierley	10/10
Ben Gunn	9/10
Stuart Bernau	10/10
Gene Lockhart	8/10
Lord Flight	9/10
Keith Carby	10/10
Roger Farah	10/10
Sir Michael Snyder	8/10



CORPORATE GOVERNANCE REPORT CONTINUED

Development

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations, with the assistance of the Company's external advisers where appropriate.

Executive Directors take part in Metro Bank's appraisal procedure where tangible targets are set against which performance is measured.

Non-Executive Directors are encouraged to attend seminars and briefings, at the Company's expense, in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Committees on which they sit.

During 2016, the Directors received in-house training on the following areas:

- UK listing regime
- Regulatory developments in UK Corporate Governance
- Insider trading and implications under the new Market Abuse Regulations
- Anti-bribery, corruption and money-laundering
- Open banking and PSD2

Risk management

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

The Bank's approach to risk is further detailed on pages 24 to 27. The Risk Oversight Committee reviews the effectiveness of the risk management process on the Board's behalf, and its approach to this can be found in the Risk Oversight Committee Report on pages 47 and 48.

External appointments

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

During the year ended 31 December 2016, none of the Bank's Executive Directors held directorships in any other quoted company.

Conflicts of interest

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

The Company has a commercial relationship with InterArch, Inc. ("InterArch"), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II. The Audit Committee has considered this relationship and concluded that the arrangements with InterArch are on terms which are at least as beneficial to the Bank as those which could be obtained from an independent third party. Further details are set out in note 27 to the financial statements.

Independent professional advice

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

Directors' indemnities and insurance

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

Election of Directors

In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the Annual General Meeting.

Relations with shareholders

The Board recognises and values the importance of regularly engaging with its shareholders throughout the year. Investor meetings are undertaken by the founder and Chairman, Vernon W. Hill, II, the CEO, Craig Donaldson, and the CFO, Mike Brierley, supported by the Director of Investor Relations. During 2016, the team participated in over 150 individual and group meetings in the US, UK and Europe, as well as presenting at investor conferences. Institutional shareholders have the opportunity to meet with the Chairman and/or other Non-Executive Directors to discuss any areas of concern.

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