INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion:

- the Metro Bank PLC Group financial statements and Company financial statements ("the financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2016 and of the Group's loss and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU");
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, which comprise:

- the consolidated and Company balance sheets as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated and Company cash flow statements for the year then ended;
- the consolidated and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRS as adopted by the EU and applicable law, and as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview

Materiality	Overall Group materiality: £2.0 million, which represents 5% of the average loss before tax for the last three years. Using an averaging method in place of a single year's result provides a more representative materiality threshold due to variation in results experienced during the period. Profit or loss before tax is a key performance indicator for the Group and a key measure for the primary users of the financial statements.
Audit scope	The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors (including history of misstatement through fraud or error). The Group is composed of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited. We performed audit procedures over reporting entities considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances), using the materiality level set out above. We also performed other audit procedures including testing information technology general controls and controls over key outsourced functions, to mitigate the risk of material misstatement.
Areas of focus	The areas of focus for our audit comprised: • impairment losses on loans and advances to customers; • recognition of revenue on loans; and • recognition of deferred tax asset in respect of trading tax losses.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit. All of these areas of focus were discussed with the Audit Committee. Their report on those matters that they considered to be significant financial statement reporting issues is set out on pages 43 to 46.

Area of focus	How our audit addressed the area of focus
Impairment losses on loans and advances to customers We focused on this area because management make significant judgements over both the timing of recognition of impairment provisions and the estimation of the size of any such provision. Management estimate specific impairment provisions on individually significant balances, typically corporate loans. A collective model based provision is then estimated for all other exposures, both retail and any corporate, not subject to a specific provision. The collective model approach underpins the material portion of the Group's impairment provisions. We focused our audit on the following areas: • The identification of impairment events, which differs depending on the type of lending product and customer, including how unidentified impairment (customers that have had a loss event that has not yet manifested itself in a missed payment or other indicator) and any forbearance are taken into account. • The key assumptions and judgements made by management that underlie the calculation of provisions. For example, the probability of default, the valuation of collateral held for secured lending and the expected future cash flows from corporate loan customers.	We understood and tested the design and operating effectiveness of the controls over data and calculations used in the provisioning process. These controls included those over: • the identification of which loans and advances were impaired; • the transfer of data from source systems to impairment models and model output to the general ledger; • the governance over the impairment processes; and • the calculation of the impairment provisions. We determined that these controls were designed, implemented and operated effectively and therefore we determined that we could place reliance on them for the purposes of our audit. In addition we performed the following substantive procedures: **Specific impairment** For loans identified by management as potentially impaired we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment, assessed critically the underlying assumptions and corroborated these to supporting evidence. From the testing performed we determined whether the specific impairment provisions made were reasonable. We found no material exceptions. We examined a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate through reviewing information such as the counterparty's payment history and performance of the business during the year. We did not find identify any evidence of an event that would require an impairment review to be performed. **Modelled impairment** We tested the completeness and accuracy of data from underlying systems used in the models including the "bucketing" into delinquency bandings. We also critically assessed and tested the key underlying assumptions used by management, and performed sensitivity analysis. Based on the evidence obtained we found that the impairment model assumptions were reasonable.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC CONTINUED

Area of focus	How our audit addressed the area of focus
Recognition of revenue on loans We focused on this area as it is the primary source of income for the Group. Interest income on loans is recognised using the effective interest rate method which spreads directly attributable cash flows, including transaction costs, over the loans' expected lives. The expected life assumptions utilise repayment profiles to represent how customers are expected to repay. The Group has limited historical experience to support these profiles and therefore management must apply judgement, in addition to any historical information available.	We assessed and tested the design and operating effectiveness of the controls directly associated with the calculation and reporting of interest income on loans. These controls included: • accurate input of loan data into core systems; • appropriate authorisation of amendments to data; and • determination and approval of the assumptions used in the effective interest rate calculations. We determined that these controls were designed, implemented and operating effectively and therefore we determined that we could place reliance on them for the purposes of our audit. We assessed management's effective interest rate calculations through stressing the assumptions applied and utilising external benchmarks to ascertain the appropriateness of the key assumptions used. We found no material exceptions in these tests.
Recognition of deferred tax asset in respect of trading tax losses The recognition of a deferred tax asset in respect of tax losses is permitted only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. When considering the availability of future taxable profits, judgement is required when assessing projections of future taxable income, and the business plans and forecasts supporting these. In view of the loss making history of the Group, convincing evidence is required to be presented by the Directors to support recognition of the deferred tax asset.	We reviewed the Group's business plans and forecasts and assessed the forecast results by challenging both the underlying and economic assumptions, focusing on those directly impacting the projections of future taxable income. These assumptions included loan and deposit growth, and loan performance over the period. We also used our independent benchmarking data to compare a number of the economic assumptions to external data sources where possible, and also assessed the accuracy of previous forecasts. We reviewed sensitivity analysis performed by management, looking at the impact on recovery of the asset under varying scenarios. In view of the loss making history of the Group, we have also applied our professional scepticism in considering whether the evidence presented by management is convincing, as is required under accounting standards. We concluded that management's judgements in respect of the Group's deferred tax assets are supportable in the context of the information currently available.

How we tailored our audit scope

We tailored the scope of our audit to ensure that we obtained sufficient and appropriate audit evidence to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group is composed of three operating entities: Metro Bank PLC, SME Invoice Finance Limited and SME Asset Finance Limited. The consolidated financial statements are a consolidation of these operating entities. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed over the individual operating entities by us, as the Group engagement team. Any operating entities which were considered individually financially significant in the context of the Group's consolidated financial statements were considered full scope components. We also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Some account balances were audited centrally by us.

This approach gave us coverage of over 98% of Group total assets. Audit coverage on account balances in the consolidated income statement range between 90% and 100%. All remaining balances within operating entities which were neither inconsequential nor individually financially significant were within our audit scope, with the risk of material misstatement mitigated through audit procedures including testing of entity level controls, information technology general controls and Group and component level analytical review procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual account balances and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£2.0 million (2015: £2.4 million)
How we determined it	5% of three years' average loss before tax
Rationale for benchmark applied	The use of 5% of profit or loss before tax is a generally accepted auditing practice for a profit-oriented group. We have used the average loss before tax over the last three years (2014 to 2016) in place of a single year's result to provide a more representative materiality threshold due to the variation in results experienced during the period. This approach is consistent with that used in the prior year.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100k (2015: £120k) as well as misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 35, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and the Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed.

As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are no guarantee as to the Group's and Company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 opinion

In our opinion:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK and Ireland) reporting

Under ISAs (UK and Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report arising from this responsibility.
The statement given by the Directors on page 45, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
The section of the Annual Report on pages 43 to 46, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF METRO BANK PLC CONTINUED

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the viability of the Group

Under ISAs (UK and Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

The Directors' confirmation on pages 24 to 27 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
The Directors' explanation on page 27 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group, set out on page 27. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate governance statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 36, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Group's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Darren L Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2017