



REMUNERATION COMMITTEE REPORT



Chairman's statement

On behalf of the Board, and as Chairman of the Remuneration Committee, I am pleased to present the Remuneration Committee Report and also the Directors' Remuneration Report ("the Report") for the year ended 31 December 2016 including the Remuneration policy for Executive and Non-Executive Directors, which describes how the Remuneration policy is implemented and discloses the amounts paid relating to the year ended 31 December 2016.

The Company's Remuneration policy (which is proposed to apply for three years) will be presented to shareholders for approval (by way of a binding vote) at the Annual General Meeting ("AGM") in April and will take effect from that date. The Company's report on remuneration for 2016 will also be presented to shareholders at the AGM along with this statement for approval by way of a non-binding advisory vote.

Remuneration consists of a base salary, appropriate benefit and pension provision and variable reward. Variable reward is delivered through share-based awards; primarily share options, and cash, the receipt of which is subject to stretching personal and Company performance conditions over one financial year, subject to deferral over five years. All share options are awarded at the market share price with no discount. All employees throughout the organisation are eligible for share options or an equivalent as there is a strong ethos of employee buy-in and ownership.

All variable reward is subject to malus and clawback (apart from the relatively small proportion of the non-deferred cash element paid after the end of the relevant financial year).

Our approach to variable pay also ensures longer-term alignment with other stakeholders through deferral and the fact that it is paid via share-based awards, usually share options. We do not operate separate long-term incentive plans. This is because as a growth organisation our short-term goals are aligned to our long-term strategic objectives.

PERFORMANCE AND REWARD OUTCOMES IN THE 2016 FINANCIAL YEAR

It has been a significant year for Metro Bank; which listed on the London Stock Exchange in March 2016 and achieved full quarter statutory profitability for the first time in Quarter 4. In determining the Executive Directors' remuneration this year, the Committee has balanced the principle of paying for performance with the need to motivate and retain our key leaders.

Composition of the Remuneration Committee

As at 31 December 2016, the members of the Committee were all independent Non-Executive Directors:

Members	Number of meetings attended
Howard Flight (Chairman)	4/4
Keith Carby	4/4
Roger Farah	4/4

Craig Donaldson (CEO) and Vernon W. Hill, II (Chairman) attend meetings by invitation and assist the Committee in its deliberations as necessary (other than in relation to their own pay and fees). The Committee also receives assistance from the Chief People Officer, Danielle Harmer, who acts as the Secretary to the Committee.

Following each meeting the Chairman provided a verbal update to the Board. The Committee minutes are also included in future Board papers. Areas of discussion are outlined on the following page.

Variable reward

Variable reward is based on key financial, risk, customer, people and culture objectives balanced with the personal behaviours, contribution and delivery of individual Executive Directors.

Final decisions on 2016 variable reward cannot be made until after we announce our annual results. We are proposing total variable reward of 52% of the maximum 200% allowed within our Remuneration policy for the CEO and variable reward of 45% of the same maximum allowed within our policy for the CFO in respect of the 2016 financial year. At least 75% of variable reward is awarded as options which vest over up to five years. The proposed figures are used in the single figure table in the Report on remuneration for 2016.

REMUNERATION FOR THE YEAR ENDING 31 DECEMBER 2017

We will be taking the following approach to implementation of the Remuneration policy for the year ending 31 December 2017:

Non-Executive Director fees

The additional annual fee paid to members of the Remuneration Committee will increase from £5,000 p.a. to £10,000 p.a. and to the Chairman of the Remuneration Committee will increase from £15,000 to £20,000, from 1 April 2017. This is to bring these fees in line with the market for this Committee. All other Non-Executive Director fees will remain unchanged.

The fees for the Chairman, Vernon W. Hill, II, increased by 35% to £385,000 from 1 February 2017. The Chairman's fees were last increased in April 2014.



Variable reward

The Committee will set appropriate and stretching annual variable reward targets for the year ended 31 December 2017 based on key financial, risk, customer, people and culture objectives. The Committee is committed to providing transparency in decision making in respect of variable reward. It will disclose historic targets and measures; together with information relating to performance against those targets in the Annual report on remuneration for the relevant year, except to the extent that this is deemed to be commercially sensitive, in which case it will be disclosed once it is deemed not to be sensitive.

At least 75% of any variable pay earned will be awarded as share options deferred over up to five years as explained in the policy.

The Committee believes this approach to variable reward will continue to focus the Executive Leadership Team on growth and building the long-term and sustainable success of the business. In fact, all employees are eligible to be included in our share schemes as part of our ethos to enable colleagues to have meaningful equity ownership.

Salary

The CEO's salary will remain unchanged in 2017.

The CFO's salary will increase by 7.14% to £375,000 from 1 April 2017 to reflect the growth of the CFO role, and also how his salary and total compensation compare to the pay data for FTSE 250 CFOs.

Pay and employment conditions of other colleagues in the Bank were taken into account when setting this Remuneration policy. Salary increases compare with the typical rate of increase to be awarded to employees across the Company with an overall pay pot of 3% for all employees. This is made up of a pay pot of 2.25% for normal inflationary and performance-related pay rises. We have also set aside additional funds for increases linked to Company and individual role growth in line with our model and/or, realigning specific jobs better to the market data available. For these growth and market data realignment increases the average pay rise is 10.97%.

The Committee believes that the overall remuneration structure continues to be appropriate. It ensures there is significant alignment between the interests of Executive Directors and shareholders.

We will of course keep the Remuneration policy to be approved by shareholders under review to ensure that our structures remain effective, competitive and aligned with the Company's objectives. Any changes to policy will be subject to shareholder approval.

As Chairman of the Remuneration Committee I engage with relevant organisations concerning the Company's approach to remuneration.

On behalf of the Committee, thank you for your continued support. I trust that you find the report informative and please do contact me with any comments or questions you may have.

Lord Flight

Remuneration Committee Chairman
2 March 2017

ROLE OF THE REMUNERATION COMMITTEE

The Committee's primary objective is the design of a remuneration framework that promotes the growth and long-term success of Metro Bank and reflects the unique culture and values, which deliver an outstanding customer experience.

- It promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of risk tolerated and agreed by the Board.
- It is in line with our business strategy and objectives, with a strong emphasis on long-term growth and share options as the major source of reward so that everyone is focused and rewarded for long-term, sustainable success.
- It is actively aligned to the delivery of an outstanding customer experience, as a result of the way we measure behaviours and performance for individuals and how we capture and act upon customer insight across the organisation.
- It rewards success and is an attractive framework for talented individuals, in particular it strikes a balance between short-term rewards whilst also recognising the long-term performance of the business.
- It complies with the FCA remuneration principles.

Full details can be found on our website:
www.metrobankonline.co.uk.

Key areas discussed at Remuneration Committee in 2016

Area	Discussion
Policy	<ul style="list-style-type: none"> • Remuneration Committee Terms of Reference • Remuneration policy • Variable reward scheme rules – old and new • Annual remuneration disclosure for 2015
Remuneration	<ul style="list-style-type: none"> • Base pay of Executive Directors, Non-Executive Directors and members of the Executive Leadership Team • Confirmation of application of deferred executive pay increases
Awards	<ul style="list-style-type: none"> • 2016 pay and variable reward quantum and multipliers • Share options – number available for granting and dilution policy • 2016 Annual Reward Review – outcomes and CEO summary • Share options for Advisory Board
Share plans	<ul style="list-style-type: none"> • New Share Incentive Plan ("SIP") which may be implemented in 2017 and offered to all colleagues
Pension	<ul style="list-style-type: none"> • Default fund changes • Pension provider review
Other	<ul style="list-style-type: none"> • Revised appointment letters for Chairman and Non-Executive Directors and contracts for Executive Leadership Team