**THIS DOCUMENT AND THE ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 (as amended) (the "FSMA") if you are resident in the United Kingdom, or, if not, from another appropriately authorised independent financial adviser in your own jurisdiction.**

This document comprises: (i) a circular prepared in accordance with the Listing Rules made under section 73A of the FSMA for the purpose of the General Meeting convened pursuant to the Notice of General Meeting set out at the end of this document; and (ii) a prospectus for the purposes of Article 3 of Regulation (EU) 2017/1129 (as it forms part of retained European Union ("**EU**") law as defined in the EU (Withdrawal) Act 2018 as amended (the "**UK Prospectus Regulation**")) relating to Metro Bank Holdings PLC (the "**Company**") prepared in accordance with the prospectus regulation rules of the UK Financial Conduct Authority (the "**FCA**") made under section 73A of the FSMA (the "**Prospectus Regulation Rules**"). This document has been approved by the FCA (as the competent authority under the UK Prospectus Regulation) in accordance with the Prospectus Regulation Rules, will be made available to the public and has been filed with the FCA in accordance with the Prospectus Regulation Rules. The FCA only approves the prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation, and such approval should not be considered as an endorsement of the Company or the quality of the securities that are, the subject of this document. Shareholders should make their own assessment as to the suitability of investing in the securities.

This document together with the documents incorporated into it by reference (as set out in Part XI of this document) will be made available to the public in accordance with Prospectus Regulation Rule 3.2.1 by the same being made available, free of charge, at www.metrobankonline.co.uk and at the Company's registered office at One Southampton Row, London WC1B 5HA, United Kingdom.

If you sell or have sold or have otherwise transferred all of your Existing Shares, please send this document, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including but not limited to the United States or any of the Excluded Territories (as defined herein), subject to certain exceptions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Company and its directors, whose names appear on page 53 of this document (the "**Directors**"), accept responsibility for the information contained in this document, other than the additional information for which only Jaime Gilinski Bacal is taking responsibility, as set out below. To the best of the knowledge and belief of the Directors and the Company (each of which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and this document makes no omission likely to affect its import. Jaime Gilinski Bacal accepts responsibility for the information contained in this document (including any expressions of opinion) relating to Spaldy Investments, his immediate family and companies and persons connected to him. To the best of the knowledge of Jaime Gilinski Bacal (who has taken all reasonable care to ensure that such is the case), the information contained in those parts of the document (including any expressions of opinion) for which he is responsible is in accordance with the facts and those parts of the document make no omission likely to affect their import.

**The release, publication or distribution of this document into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document and/or accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this document, the enclosures and any other such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories (as defined herein). This document has been prepared to comply with the requirements of English law, the Listing Rules, the Prospectus Regulation Rules and the rules of the London Stock Exchange plc, and information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside England and Wales.**

# METRO BANK HOLDINGS PLC

*(incorporated and registered in England and Wales with registered number 14387040)*

**Application for admission to trading in respect of 500,000,000 New Shares**

**Approval for Waiver of Obligations under Rule 9 of the City Code on Takeovers and Mergers**

**and**

**Notice of General Meeting**

**Sponsor and Placing Agent**

**RBC Europe Limited**

A Notice of General Meeting of the Company seeking approval: (i) to undertake the Firm Placing; and (ii) for the waiver of the obligation to make an offer under Rule 9 of the City Code on Takeovers and Mergers (the "**Code**") (the "**Rule 9 Waiver**"), to be held at One Southampton Row, London WC1B 5HA on 27 November 2023 at 11:30 a.m. (London time), is set out at the end of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar, Equiniti Limited, by not later than 11:30 a.m. (London time) on 23 November 2023 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). You may also submit your proxy electronically at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number on the Form of Proxy.

The Shares are listed on the premium listing segment of the Official List maintained by the FCA and traded on the London Stock Exchange's main market for listed securities. Applications will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively (together, "**Admission**"). It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Shares will commence at 8.00 a.m. (London time) on 30 November 2023 or such other date as may be notified by the Company.

**Your attention is drawn to the letter of recommendation from the Chair which is set out in the section headed "Letter from the Chair of Metro Bank Holdings PLC" of this document. Your attention is also drawn to the section headed "Risk Factors" at the beginning of this document, which sets out certain risks and other factors that should be considered when deciding whether or not to vote in favour of the Shareholder Resolutions (as defined below). Details of the Rule 9 Waiver and associated Rule 9 Waiver Resolution (which will be subject to a vote of Independent Shareholders) are set out in paragraph 2 and 5 of Part I of this document, and the recommendation of the Independent Directors on the Rule 9 Waiver Resolution is set out in paragraph 17 of Part I of this document.**

RBC Europe Limited (trading as RBC Capital Markets) ("**RBC**") is authorised by the UK Prudential Regulation Authority (the "**PRA**") and regulated in the United Kingdom by the PRA and FCA. RBC is acting exclusively for the Company and no one else in connection with the Firm Placing, Admission and Rule 9 Waiver, and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Firm Placing or Admission and will not be responsible to anyone other than the Company for providing the protections afforded to its respective clients, or for providing advice, in relation to the Firm Placing, Admission or the Rule 9 Waiver or any other transaction or arrangement referred to herein.

Neither RBC nor its affiliates accepts any responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Shares, the Firm Placing, Admission, the Rule 9 Waiver or any other transaction or arrangement referred to herein. RBC and its affiliates accordingly disclaims, to the fullest extent permitted by applicable law, all and any duty, liability, or responsibility whatsoever whether arising in tort, contract or otherwise, which they might otherwise have in respect of this document or any such statement. No representation or warranty, express or implied, is made by RBC or its affiliates as to the accuracy, completeness, verification or sufficiency of the information

set out in this document, and nothing in this document will be relied upon as a promise or representation in this respect, whether or not to the past or future, provided that nothing in this paragraph shall seek to exclude or limit any responsibilities or liabilities which may arise under the FSMA or the regulatory regime established thereunder.

The contents of this document are not to be construed as legal, business, financial or tax advice. Recipients of this document should consult their own legal adviser, business adviser, financial adviser or tax adviser for legal, financial, business or tax advice.

The New Shares are expected to be enabled for settlement by Euroclear as soon as practicable after Admission.

RBC and its affiliates may have engaged in transactions with, and may provide various investment banking, financial advisory and other services for, the Company for which it would have received customary fees. RBC and its affiliates may provide such services to the Company and any of its affiliates in the future.

**Notice to Shareholders in the United States and Excluded Territories**

The New Shares have not been and will not be registered under the Securities Act of 1933 (the "**Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in or into the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States. There will be no public offer of the New Shares in the United States.

The New Shares have been offered: (i) outside the United States in "offshore transactions" as defined in, and in accordance with, Regulation S under the Securities Act; and (ii) in the United States to persons reasonably believed to be "qualified institutional buyers", as defined in Rule 144A under the Securities Act ("**QIBs**"), and to certain other persons who are accredited investors ("**AIs**") as such term is defined in Rule 501(a) under the Securities Act, in each case who are subscribing for the New Shares in transactions that are exempt from, or that are not subject to, the registration requirements of the Securities Act, and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The New Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

This document does not constitute an offer of the New Shares to any person.

Any person in the United States who obtains a copy of this document and who is not a QIB or AI is required to disregard it.

The New Shares have not been and will not be registered or qualified under the relevant laws of any state, province or territory of the United States or any of the Excluded Territories and, subject to certain exceptions, may not be offered, sold, resold, taken up, transferred, delivered or distributed, directly or indirectly, within the United States or any Excluded Territory except pursuant to an applicable exemption from registration requirements.

**Notice to all Shareholders**

The distribution of this document and/or the transfer of the New Shares into jurisdictions other than the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, subject to certain exceptions, such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories. No action has been taken by the Company or by RBC that would permit an offer of the New Shares or rights thereto or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by RBC. Neither the delivery of this document nor any

subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct as at any time subsequent to its date.

A copy of this document, together with all information incorporated into this document by reference to another source, will be made available, subject to certain restrictions relating to persons resident in jurisdictions where the publication or distribution of this document and the associated information may be restricted by law, on the Company's website at www.metrobankonline.co.uk/investor-relations by no later than 12 noon (London time) on the business day after the date of publication of this document. For the avoidance of doubt, and without limitation, the contents of the Company's websites do not form part of this document. Capitalised terms have the meanings ascribed to them in Part XII of this document.

**Where to find help**

If you have further questions, or if you would like to request a hard copy of this document or any information incorporated into this document by reference, please call Equiniti between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday (except public holidays in England and Wales) on +44 (0)371-384-2050. You may also request that all future documents, announcements and information to be sent to you in relation the Rule 9 Waiver should be in hard copy form. Calls outside the United Kingdom will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones. Please note that calls may be monitored or recorded and Equiniti cannot provide legal, tax or financial advice or advice on the Firm Placing or the Rule 9 Waiver.

This document is dated 9 November 2023.

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# SUMMARY

## Section A – Introduction and warnings

| Sub-section | Disclosure requirement |
|---|---|
| **Details of the issuer** | The issuer is Metro Bank Holdings PLC (the "**Company**", and the Company together with its subsidiary undertakings and, where the context requires, its associated undertakings, the "**Group**"), a public limited company incorporated in England and Wales with registered number 14387040.<br>The Company's registered office is at One Southampton Row, London WC1B 5HA. Its telephone number is +44 (0)345 08 08 500 and the legal entity identifier of the Company is 984500CDDEAD6C2EDQ64. |
| **Details of the securities** | On Admission, the New Shares will be registered with an ISIN of GB00BMX3W479 and SEDOL of BMX3W47. It is expected that the New Shares will be traded on the main market for listed securities of the London Stock Exchange under the ticker symbol "MTRO". |
| **Details of the FCA** | This document has been approved by the FCA, as competent authority under the UK Prospectus Regulation. The head office of the FCA is at 12 Endeavour Square, London E20 1JN. The telephone number of the FCA is +44 (0)20 7066 1000. |
| **Date of approval** | This document was approved by the FCA on 9 November 2023. |
| **Warnings** | This summary should be read as an introduction to this document.<br>Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Any investor could lose all or part of their invested capital.<br>This document should be read in its entirety. Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in the securities. |

## Section B – Key information on the Issuer

| Sub-section | Disclosure requirement |
|---|---|
| **Who is the issuer of the securities?** | The Company was incorporated in England and Wales on 29 September 2022 as MB Group Topco PLC, a public company limited by shares in the United Kingdom with registered number 14387040 and changed its name to Metro Bank Holdings PLC on 12 December 2022. The legal entity identifier of the Company is 984500CDDEAD6C2EDQ64. The principal law and legislation under which the Company operates is the Companies Act and regulations made thereunder. |
| **Current operations, principal activities and markets** | The principal activity of the Company is to act as the ultimate holding company of the Group, in particular of Metro Bank plc ("**Metro Bank**"), which is a deposit-taking and lending institution with a focus on retail and small and medium-size commercial customers in the United Kingdom. The Company is subject to prudential supervision as a UK parent financial holding company and has been approved as such by the Prudential Regulation Authority. |
| **Significant recent trends** | On 5 July 2023, the countercyclical buffer increased by 1 per cent., leading to an increase in the Combined Buffer Requirement (which comprises the countercyclical buffer of 2 per cent. of RWAs and the capital conservation buffer which is 2.5 per cent. of RWAs) applicable to the Group. As a result, the Group no longer has sufficient Common Equity Tier 1 ("**CET1**") resources to meet its Combined Buffer Requirement in full, and the Group is therefore subject to the Maximum Distributable Amount ("**MDA**") restrictions (which are formulaic restrictions to certain payments including dividend payments and variable remuneration).<br>On 7 November 2023, the Company announced in its 2023 third quarter trading update that, as at 30 September 2023, the Group's assets were £21,606 million (30 June 2023: £21,747 million), its loans and advances to customers were £12,513 million (30 June 2023: £12,572 million), its deposits from customers were £15,612 million (30 June 2023: £15,529 million) and its loan to deposit ratio was 80 per cent. (30 June 2023: 81 per cent.).<br>As announced on 8 October 2023, following the end of the third quarter, the Group noted an increase in deposit outflow rates in advance of the announcement of the Transactions. Since the announcement, daily flows have returned to more normal ranges.<br>The third quarter delivered continued momentum in personal and business current account growth and customer acquisition as well as a modest statutory profit after tax. Lending reflected continued controlled asset origination and, as such, capital resources were broadly flat relative to 30 June 2023 levels. |
| **Group structure** | Metro Bank is the primary operating company of the Group. Metro Bank is a UK deposit-taking institution which is authorised by the PRA and regulated by the FCA and the PRA. |
| **Major Shareholders** | Insofar as the Company has been notified under the Disclosure Guidance and Transparency Rules, the names of the persons who, directly or indirectly, have an interest in three per cent. or more of the Company's issued share capital, and their respective interests, as at 27 October 2023 are as follows: |

| Name | Shares No. | Shares % |
|---|---|---|
| Spaldy Investments Limited | 15,723,914 | 9.11 |
| The Spruce House Partnership | 15,500,000 | 8.98 |
| Ruane, Cunniff and Goldfarb | 10,214,789 | 5.92 |
| Davis Selected Advisors | 8,136,346 | 4.71 |
| Kernow Asset Management Limited | 5,494,596 | 3.18 |

So far as the Company is aware, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government or any other natural or legal person, severally or jointly.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

So far as the Company is aware, immediately following the Firm Placing, the interests of those persons set out above with an interest in three per cent. or more of the Company's issued share capital (assuming: (i) full take-up by such persons of any New Shares allocated to such persons under the Firm Placing; and (ii) that no Shares are issued pursuant to options exercised under the Share Schemes between the date of this document and Admission becoming effective) will be as follows:

| | **Shares** | |
|---|---|---|
| **Name** | **No.** | **%** |
| Spaldy Investments Limited | 355,723,914 | 52.88 |
| The Spruce House Partnership | 58,833,333 | 8.75 |
| Ruane, Cunniff and Goldfarb | 38,548,122 | 5.73 |
| Davis Selected Advisors | 34,803,013 | 5.17 |
| Kernow Asset Management Limited | 21,327,929 | 3.17 |

Immediately following the Firm Placing, Spaldy Investments Limited ("**Spaldy Investments**") is expected to hold Shares carrying 52.88 per cent. of the total voting rights of the Company. As such, Spaldy Investments will be deemed a controlling shareholder of the Company and, in compliance with the Listing Rules, has entered into a Relationship Agreement on customary terms with Jaime Gilinski Bacal, Spaldy Investments' sole shareholder and director, and the Company, which will take effect from Admission.

**Key managing directors**

The key managing directors of the Company are:

| **Director** | **Position** |
|---|---|
| Robert Sharpe | Chair |
| Daniel Frumkin | Chief Executive Officer |
| James Hopkinson | Chief Financial Officer |

**Statutory auditor**

The auditor of the Group is PricewaterhouseCoopers LLP, chartered accountants, whose address is at 7 More London Riverside, London SE1 2RT.

PricewaterhouseCoopers LLP is registered to carry out audit work in England and Wales by the Institute of Chartered Accountants in England and Wales and has no material interest in the Group.

**What is the key financial information regarding the issuer?**

**Selected historical financial information**

As the Company is a non-operating bank holding company, the Company does not have and does not expect to have any significant obligations, and has not entered and does not expect to enter into any significant trade, between the date of its incorporation and the date of this document.

The tables below set out selected key financial information as at and for the financial years ended 31 December 2020, 2021 and 2022 and as at 30 June 2023 and for the six months ended 30 June 2022 and 2023.

The financial information set out in the tables below has been extracted without material adjustment from the Historical Financial Information.

***Summary Consolidated Income Statement***

The following table sets out the summarised results of operations of Metro Bank and its subsidiaries for each of the years ended 31 December 2020, 2021 and 2022 and of the Group for each of the six months ended 30 June 2022 and 2023:

| | **Year ended 31 December** | | | **Six months ended 30 June** | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | | *(£ million)* | | *(unaudited)*<br>*(£ million)* | |
| Net interest income | 249.7 | 295.3 | 404.1 | 180.8 | 221.5 |
| Net fee and commission income | 59.9 | 69.6 | 81.8 | 39.5 | 42.2 |
| Net gains on sale of assets | 73.3 | 9.4 | | | 0.8 |
| Other income | 49.7 | 44.2 | 37.6 | 16.2 | 21.9 |
| **Total income** | **432.6** | **418.5** | **523.5** | **236.5** | **286.4** |
| Total operating expenses | (617.3) | (641.2) | (554.3) | (278.8) | (259.7) |
| Credit impairment charges/expected credit loss expense | (126.7) | (22.4) | (39.9) | (17.9) | (11.3) |
| (Loss)/profit before tax | (311.4) | (245.1) | (70.7) | (60.2) | 15.4 |
| Taxation | 9.7 | (3.1) | (2.0) | (1.5) | (2.7) |
| **(Loss) / profit after tax** | **(301.7)** | **(248.2)** | **(72.7)** | (61.7) | 12.7 |

***Summary Consolidated Balance Sheet***

The following table sets out the summarised balance sheet of Metro Bank and its subsidiaries as at 31 December 2020, 2021 and 2022 and of the Group as at 30 June 2023:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | | | | *(unaudited)* |
| | | *(£ million)* | | |
| **Total assets** | 22,579 | 22,587 | 22,119 | 21,747 |
| **Total liabilities** | 21,290 | 21,552 | 21,163 | 20,777 |
| **Total equity** | 1,289 | 1,035 | 956 | 970 |

***Summary Consolidated Cash Flow Statement***

The following table summarises cash flows of Metro Bank and its subsidiaries for each of the years ended 31 December 2020, 2021 and 2022 and of the Group for each of the six months ended 30 June 2022 and 2023:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | | | | *(unaudited)* | |
| | | *(£ million)* | | | |
| Net cash inflow/(outflow) from operating activities | 1,041 | 2,854 | (1,185) | (73) | 182 |
| Net cash (outflow)/inflow from investing activities | (956) | (2,250) | (402) | (620) | 582 |
| Net cash outflow from financing activities | (81) | (29) | (25) | (13) | (12) |
| **Net increase/(decrease) in cash and cash equivalents** | 4 | 575 | (1,612) | (706) | 752 |
| **Cash and cash equivalents at start of period** | 2,989 | 2,993 | 3,568 | 3,568 | 1,956 |
| **Cash and cash equivalents at end of period** | 2,993 | 3,568 | 1,956 | 2,862 | 2,708 |

The summary unaudited *pro forma* financial information set out below (comprising an unaudited *pro forma* statement of net assets) has been prepared on a voluntary basis in accordance with Annex 20 to the Prospectus Regulation Rules to illustrate the effect of the Firm Placing, the proposed issuance of a single series of new £150 million 14 per cent. Fixed Rate Reset Callable Subordinated Notes due 2034 by the Company (the "**New Tier 2 Notes**") in an effective exchange for Metro Bank's £250 million Fixed Rate Subordinated Notes due 2028 (ISIN: XS1844097987) (the "**Existing Tier 2 Notes**") pursuant to the written resolution, notice of which was circulated by Metro Bank to the holders of the Existing Tier 2 Notes on 7 November 2023, and the proposed issuance of a single series of new £525 million 12 per cent. Fixed Rate Reset Callable Notes due 2029 by the Company (the "**New MREL Notes**"), comprising (i) £175 million in aggregate principal amount of New MREL Notes to be issued for subscription in cash (the "**Cash New MREL Notes**") and (ii) £350 million in aggregate principal amount of New MREL Notes to be issued in an effective exchange for the Company's £350 million Fixed Rate Reset Callable Notes due 2025 (ISIN: XS2063492396) (the "**Existing MREL Notes**") pursuant to the written resolution, notice of which was circulated by the Company to the holders of the Existing MREL Notes on 7 November 2023 (the "**Non-Cash New MREL Notes**") on the Group's net assets at 30 June 2023 as if the foregoing had occurred on 30 June 2023.

**Key pro forma financial information**

| | | Adjustments | | | |
|---|---|---|---|---|---|
| | As at 30 June 2023(1) | Net proceeds from the Firm Placing(2) | Net proceeds from the issuance of the Cash New MREL Notes(3) | Issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes(4) | Pro Forma Group |
| | | | *(unaudited)* *(£ million)* | | |
| **Total assets** | 21,747 | 144 | 168 | (42) | 22,017 |
| **Total liabilities** | (20,777) | — | (168) | 103 | (20,842) |
| **Net assets** | 970 | 144 | — | 61 | 1,175 |
| **CET1 resources(5)** | 813 | 144 | — | 61 | 1,018 |
| **CET1 ratio(5)** | 10.4% | 1.8% | — | 0.8% | 13.1% |

Notes:

(1) The Group financial information as at 30 June 2023 has been extracted, without material adjustment, from the Group unaudited financial information in Part VII of this document. No adjustment has been made to reflect trading results of the Group since 30 June 2023.

(2) The adjustment reflects the receipt by the Group of net proceeds from the Firm Placing comprising:

| | |
|---|---|
| Gross proceeds from the Firm Placing | £150 million |
| Less: transaction costs | (£6 million) |
| **Net proceeds from the Firm Placing** | £144 million |

(3) The adjustment reflects the receipt by the Group of net proceeds from the issuance of the Cash New MREL Notes comprising:

| | |
|---|---|
| Gross proceeds from the issuance of the Cash New MREL Notes | £175 million |
| Less: transaction costs | (£7 million) |
| **Net proceeds from the issuance of the Cash New MREL Notes** | £168 million |

(4) The adjustment reflects the impact on the Group's net assets from the issuance of the New Tier 2 Notes, comprising:

| | |
|---|---|
| Haircut of 40% on New Tier 2 Notes | £100 million |
| Release of unamortised issuance fees | (£2 million) |
| Impact from closing out associated hedge accounting relationships | (£25 million) |
| **Net impact on debt securities** | £73 million |
| Transaction costs | (£17 million) |
| Tax credit (effective tax rate of 11.75%) | £5 million |
| **Net impact from the restructure of the Tier 2 Notes and Non-Cash New MREL Notes** | £61 million |

The 40 per cent. haircut applied to the New Tier 2 Notes results in the Group recognising a gain of £100 million. This has been treated as non-taxable as the Group expects to be able to apply the exemption under S.322 (5B) Corporation Tax Act 2009.

Upon derecognition of the Existing Tier 2 Notes and the Existing MREL Notes, the unamortised original issuance fees are recognised immediately within profit and loss. The Existing Tier 2 Notes and Existing MREL Notes had also been entered into hedge accounting relationships for the purposes of managing interest rate risk. Upon the derecognition of both, these hedge accounting relationships are subject to mandatory discontinuation, with any gain or loss impact recognised within profit and loss and a £25 million cash impact on settlement. These items, alongside the associated transaction costs will reduce taxable profit for the year. Under corporate loss restriction rules, profits may only be relieved by up to 50% of brought forward losses. Therefore, the effective corporate tax rate is expected to be 11.75% being half of the 2023 blended corporation tax rate of 23.5%

The net impact from the restructuring of the New Tier 2 Notes and Non-Cash New MREL Notes in profit and loss forms part of the Group's retained earnings and is all treated as CET1 for regulatory capital purposes.

(5) CET1 resources are set out below on both an unadjusted and on an unaudited *pro forma* basis. The CET1 ratio is the ratio of total CET1 resources to risk-weighted assets. Risk-weighted assets as at 30 June 2023 were £7,802 million. Risk-weighted assets are unaffected by the unaudited *pro forma* adjustments as the cash deposits are assumed to have a zero risk-weighting.

The CET1 requirement has been adjusted to reflect that on 5 July 2023, the countercyclical buffer increased by 1 per cent., leading to an increase in the Combined Buffer Requirement (which comprises the countercyclical buffer of 2 per cent. of RWAs and the capital conservation buffer which is 2.5 per cent. of RWAs) applicable to the Group.

CET1 resources are as follows in the below table.

| | | **Adjustments** | | | |
|---|---|---|---|---|---|
| | **Group as at 30 June 2023** | **Net proceeds from the Firm Placing** | **Net proceeds from issuance of the Cash New MREL Notes** | **Issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes** | ***Pro Forma* Group** |
| | | | *(unaudited)* *(£ million)* | | |
| *CET1* | | | | | |
| Total Equity[(1)] | 970 | 144 | — | 61 | 1,175 |
| less intangible assets | (207) | — | — | — | (207) |
| *add* other regulatory adjustments | 50 | — | — | — | 50 |
| **Total CET1** | 813 | 144 | — | 61 | 1,018 |
| Debt securities (Tier 2)[(2)] | 217 | — | — | (67) | 150 |
| **Total regulatory capital** | 1,030 | 144 | — | (6) | 1,168 |
| Debt securities (MREL) | 348 | — | 168 | 2 | 518 |
| Tier 2 haircut and amortisation add back | 33 | — | — | (33) | — |
| **Total regulatory capital + MREL** | 1,411 | 144 | 168 | (37) | 1,686 |

Notes

(1) Total equity includes share capital, share premium, retained earnings and other reserves.

| | |
|---|---|
| | (2) As described more fully in this document, the implementation of the written resolution passed in respect of the Existing Tier 2 Notes will result in the full write-down of the Existing Tier 2 Notes by way of effective exchange into the New Tier 2 Notes. |
| **Profit forecast or estimate** | Not applicable. No profit forecast has been included in this document. |
| **Qualifications in the audit report on the historical financial information** | Not applicable. There are no qualifications to the audit report on the historical financial information. |
| **Insufficient working capital** | In the opinion of the Company, the working capital available to the Group is not sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.<br>On 5 July 2023, the countercyclical buffer increased by 1 per cent., leading to an increase in the Combined Buffer Requirement (which comprises the countercyclical buffer of 2 per cent. of RWAs and the capital conservation buffer which is 2.5 per cent. of RWAs) applicable to the Group. As a result, the Group no longer has sufficient CET1 resources to meet its Combined Buffer Requirement in full, and the Group is therefore subject to the MDA restrictions (which are formulaic restrictions to certain payments including dividend payments and variable remuneration). Consequently, without the net proceeds of the Transactions, the Group will continue to have insufficient CET1 resources to meet its Combined Buffer Requirement in full, and will therefore remain subject to the MDA restrictions.<br>The Company is unable to take into account the net proceeds of the Transactions in the working capital statement set out above as the net proceeds of the Transactions are conditional upon, among other things: (i) the passing and implementation of the written resolutions in respect of the Existing Tier 2 Notes and the Existing MREL Notes circulated by the Company and Metro Bank on 7 November 2023; and (ii) the Shareholder Resolutions (as defined below) having been passed at the General Meeting.<br>However, the Company is of the opinion that, after taking into account the net proceeds of the Transactions, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.<br>The Transactions will allow the Company (on a consolidated basis) and Metro Bank (on a solo basis) to meet its minimum regulatory capital requirements, MREL requirement and the Combined Buffer Requirements in full. If the Transactions do not successfully complete, which will be the case if the conditions to the Transactions are not satisfied, the Group could face a number of adverse consequences, including being placed into resolution. The Company expects that failure to complete the Transactions would have an immediate material adverse effect on the Group's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements, as well as its ability to refinance its debts, and as a consequence, would increase the risk of resolution.<br>The Company has taken significant steps to mitigate the risk of the conditions not being satisfied, including the entry into of the Support Agreement (as defined below), which sets out the terms of support by the Consenting Noteholders for the Transactions. On 11 October 2023, the Company announced that following further support received, it had achieved support of more than 75 per cent. by nominal (par) value of each of the holders of the Existing MREL Notes and the Existing Tier 2 Notes acceding to the Support Agreement, being the threshold necessary to approve the written resolutions referred to above. The Company has also secured commitments from certain Shareholders to vote in favour of the Shareholder Resolutions at the General Meeting in respect of their entire beneficial holdings pursuant to the Equity Commitment Letters.<br>Your attention is drawn to the working capital statement in paragraph 28 of Part X of this document. |

## Section C – Key information on the securities

| Sub-section | Disclosure requirement |
|---|---|
| **What are the key risks that are specific to the issuer?** | • The Firm Placing and the issuance of the Cash New MREL Notes (together the "**Capital Raisings**"), the issuance of the New Tier 2 Notes and the issuance of the Non-Cash New MREL Notes (together with the Capital Raisings, the "**Transactions**") are inter-conditional and depend, among other things, on the Shareholders passing the shareholder resolutions to be proposed at the General Meeting in connection with the Transactions, notice of which is set out on pages 213 to 217 (inclusive) of this document (the "**Shareholder Resolutions**");<br>• If the Transactions do not successfully close and the Group is not otherwise able to restore its capital resources, it could face a number of adverse consequences, including pre-resolution action in the form of point of non-viability ("**PoNV**") powers or being placed into resolution with resolution action in the form of bail-in, which in each case would lead to the cancellation, transfer or dilution of the Shares, while a sale of the Group to a private purchaser (which is also a potential resolution action) could have a similar effect if the sale was for no or minimal consideration;<br>• The Group's business is subject to inherent risks arising from macroeconomic conditions in, and which affect, the UK, both generally and as they specifically affect financial institutions;<br>• The Group faces risks relating to volatility in UK real estate;<br>• The Group faces risks associated with interest rate levels and volatility;<br>• Claims, investigations and litigation could adversely affect the Group's brand, reputation and earnings;<br>• The Group faces risks associated with the implementation of its strategy;<br>• The Group's business is subject to risks relating to the cost and availability of liquidity and funding;<br>• The Group operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years;<br>• The Group is subject to prudential regulatory capital and liquidity requirements (applying both at the level of Metro Bank (on a solo basis) and at the level of the Company (on a consolidated basis)); and<br>• The increase of the countercyclical buffer has meant that the Company and Metro Bank are subject to MDA restrictions limiting their ability to pay dividends on the Shares and variable remuneration to senior managers. In addition, the Group's capital position limits its ability to grow its assets. |
| **What are the key risks that are specific to the securities?** | • The value of the Shares may fluctuate;<br>• The Company may not have any distributable profits or reserves to enable it to pay dividends to its Shareholders. Shareholders may therefore not receive a return on their investment or may receive a negative return and lose some or all of their capital; |

| | |
|---|---|
| | • Any future issue of Shares, including in connection with an offering, the conversion of Additional Tier 1 Securities issued by the Company, any future acquisitions, any share incentive or share option plan or otherwise will further dilute the holdings of the then current Shareholders and could adversely affect the market price of Shares; and<br>• In the event of pre-resolution or resolution, the Shares can be written down as they comprise the Group's CET1 capital. |
| **Rights attaching to the securities** | The New Shares will, when issued and fully paid, rank equally in all respects with the Existing Shares, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the New Shares. |
| **Rank of securities in the issuers' capital structure in the event of insolvency** | The Shares do not carry any rights with respect to capital to participate in a distribution (including on a winding-up) other than those that exist as a matter of law. |
| **Restrictions on the free transferability of the securities** | There are no restrictions on the free transferability of the Shares. |

## Section D – Key information on the Firm Placing and admission to trading on a regulated market

| Sub-section | Disclosure requirement |
|---|---|
| **Under which conditions and timetable can I invest in this security?** | ***Firm Placing***<br>The Firm Placees have conditionally agreed to subscribe for 500,000,000 New Shares at 30 pence per New Share (representing gross proceeds of £150 million).<br>***Conditions***<br>In respect of the Transactions, all applicable prudential regulatory notifications have been made in respect of the Firm Placing, the New Tier 2 Notes issuance and the New MREL Notes issuance, and corresponding issuances from Metro Bank to the Company, and the following formal written permissions have been obtained:<br>• a modification direction in respect of Article 28(2) of the Own Funds and Eligible Liabilities Part of the PRA rulebook granted by the PRA on 6 November 2023 with effective date 3 November 2023;<br>• a formal written permission (pursuant to Articles 77/78 CRR) in respect of the Existing Tier 2 Notes reduction granted by the PRA on 6 November 2023 with effective date 3 November 2023; and<br>• confirmation dated 9 October 2023 that the PRA has granted approval for the change of control whereby each of Spaldy Investments Limited and Jaime Gilinski will be controllers of Metro Bank as described under Part XII of the FSMA in connection with the Firm Placing.<br>The Firm Placing is conditional, *inter alia*, upon:<br>(i) the Shareholder Resolutions having been passed by Shareholders (or, in the case of the Rule 9 Waiver Resolution, the resolution having been passed by the Independent Shareholders) at the General Meeting convened for the purposes of seeking approval to, *inter alia*, undertake the Firm Placing;<br>(ii) the Equity Commitment Letters having become unconditional in all respects (save for any condition relating to Admission) before Admission occurs;<br>(iii) the Debt Commitment Letters having become unconditional in all respects (save for any condition relating to Admission) before Admission occurs;<br>(iv) in respect of the Existing Tier 2 Notes, the passing of the relevant written resolution, the satisfaction of the eligibility condition, the implementation of the written resolution and the satisfaction of the effectiveness conditions;<br>(v) in respect of the Existing MREL Notes, the passing of the written resolution, the satisfaction of the eligibility condition, the implementation of the written resolution and the satisfaction of the effectiveness conditions;<br>(vi) the Support Agreement not having been terminated; and<br>(vii) Admission having become effective.<br>The Company will work to co-ordinate satisfaction of the conditions before or shortly following the General Meeting, following which it will issue an announcement via the Regulatory News Service operated by the London Stock Exchange confirming satisfaction of all conditions, save for Admission, and such announcement shall specify the time for settlement and Admission.<br>If any of the conditions (including the issuance of the new MREL Notes and New Tier 2 Notes) are not satisfied or, if applicable, waived, then the Firm Placing will not take place.<br>**Expected Timetable**<br>It is expected that Admission of the New Shares will become effective and that unconditional dealings will commence at 8:00 a.m. on 30 November 2023 (London time) or such other date as may be notified by the Company. |
| **Reasons for producing this document** | This document has been prepared in connection with the Admission of the New Shares as part of the Transactions. The Transactions comprise (i) the Firm Placing, (ii) the issuance of £150 million of New Tier 2 Notes in an effective exchange for Metro Bank's £250 million Existing Tier 2 Notes and (iii) the issuance of the New MREL Notes (which comprise £175 million of Cash New MREL Notes and the effective exchange of £350 million Existing MREL Notes for £350 million Non-Cash New MREL Notes). The Transactions are being undertaken to increase the capital resources of the Group and to support the growth of the Group by allowing it to capitalise on its attractive strategic opportunity set. Shareholders and Independent Shareholders, as applicable, are reminded of the importance of voting in favour of the Shareholder Resolutions. |
| **Net proceeds and costs** | The net proceeds of the Firm Placing will be approximately £144 million (net of fees, costs and expenses). The total fees, costs and expenses payable by the Company in connection with the Firm Placing will be approximately £6 million (including VAT). The net proceeds of the issuance of the Cash New MREL Notes will be approximately £168 million (net of fees, costs and expenses). The total fees, costs and expenses payable by the Company in connection with the issuance of the Cash New MREL Notes will be approximately £7 million (including VAT). No fees, costs or expenses will be charged by the Company to subscribers of the New Shares or the Cash New MREL Notes. |

| | |
|---|---|
| **Reasons for the Firm Placing and use of proceeds** | The Company intends to use the net proceeds raised from the Transactions to increase the capital resources of the Group and to support the growth of the Group by allowing it to capitalise on its attractive strategic opportunity set. From a regulatory capital standpoint, the Transactions will allow the Company (on a consolidated basis) and Metro Bank (on a solo basis) to meet its minimum regulatory capital requirements, MREL requirement and the Combined Buffer Requirement in full. Therefore, the MDA restrictions will cease to apply. The *pro forma* CET1 ratio (on the basis of 30 June 2023 data but taking into account the effect of the Transactions and the increase of the Combined Buffer Requirement on 5 July 2023) would have been at least 13 per cent., which would have exceeded the *pro forma* CET1 requirement of 9.2 per cent. and Tier 1 requirement of 10.8 per cent. (including buffers), and the MREL ratio would have been 21.6 per cent., which would have exceeded the MREL requirement of 21.2 per cent. (including buffers). On receipt, the net proceeds will be placed with the Bank of England. |
| **Material interests** | If the Firm Placing proceeds, Spaldy Investments and Jaime Gilinski Bacal (together, the "**Controlling Shareholder Group**") will be entitled to appoint up to three directors in total to the Board of the Company at any time following Admission pursuant to a relationship agreement that will be entered into on the date of this document (the "**Relationship Agreement**"), which will take effect from Admission. For further details, see "*Directors, Senior Managers and Advisers—Board of Directors*". Otherwise, there are no interests, including conflicting interests, which are material to the Placing, other than those disclosed in Section B "Major Shareholders" above. |
| **Details of lock-up arrangements** | N/A |
| **Dilution** | The economic and voting interests of Shareholders who are not Firm Placees will be diluted by 74 per cent. as a result of the Firm Placing. |
| **Estimated expenses** | The aggregate expenses of, or incidental to, the Firm Placing to be borne by the Company are estimated to be approximately £6 million, which the Company intends to pay out of the proceeds of the Firm Placing. |

# RISK FACTORS

*Any investment in the Shares is subject to a number of risks. Accordingly, Shareholders should carefully consider the factors and risks associated with any investment in the Shares, the Group and the industry in which it operates, together with all other information contained or incorporated by reference into this document, including, in particular, the risk factors described below, and their personal circumstances prior to making any decision in respect of the Shareholder Resolutions. Some of the following factors relate principally to the Group's business, while others relate principally to the Shares or the Transactions.*

*Shareholders should note that the risks relating to the Shares, the Group's business and the industry in which it operates summarised in the section of this document entitled "Summary" are the risks that the Directors believe to be the most essential to an assessment by a Shareholder of whether to vote in favour of the Shareholder Resolutions. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, Shareholders should consider not only the information on the key risks summarised in the section of this document entitled "Summary" but also, among other things, the risks and uncertainties described below.*

*The risks and uncertainties described below represent those the Directors consider to be material as at the date of this document. However, these risks and uncertainties are not the only ones facing the Group. Additional risks and uncertainties not presently known to the Directors, or that the Directors do not currently consider to be material, may individually or cumulatively also materially and adversely affect the business, results of operations, financial condition and/or prospects of the Group. If any of these risks actually occur, the business, results of operations, financial condition and/or prospects of the Group could be materially and adversely affected. In such case, the market price of the Shares could decline. You should carefully consider the information in this document in light of your personal circumstances.*

## Risks relating to the Transactions

### The Transactions are inter-conditional and depend, among other things, on the Shareholders passing the Shareholder Resolutions

Implementation of the Transactions in full relies on each of the Firm Placing, the issuance of the New Tier 2 Notes and the issuance of the New MREL Notes being executed successfully, in accordance with its terms, and each of these Transactions is inter-conditional on the other Transactions. The principal risk to the successful implementation of the Transactions is the failure of the Shareholders to pass the Shareholder Resolutions (or, in the case of the Rule 9 Waiver Resolution, the failure of the Independent Shareholders to pass the Rule 9 Waiver Resolution).

There is a risk that this condition, together with other customary conditions, will not be satisfied in the expected time frame or at all. The timetable for implementing the Transactions provides for a long-stop date of 31 December 2023 (the "**Long-Stop Date**"). The Long-Stop Date can be extended to 31 January 2024 by a majority of the consenting creditors, and can be further extended with supermajority consent. The Transactions may be delayed for a variety of reasons and should they fail to close by the Long-Stop Date, the Transactions will be terminated.

Any delay in completing the Transactions will prolong the period of uncertainty for the Group and may result in the accrual of additional costs (for example, there may be an increase in costs in relation to the preparation and issue of documentation, or other elements of the planning and implementation of the Transactions), increase market uncertainty and adversely affect the trading performance of the Group's securities and, if unresolved, may result in any of HM Treasury, the Bank of England, the PRA or the FCA (together, the "**Authorities**") taking action against the Group as a result of its non-compliance with certain capital and regulatory requirements or the failure to satisfy a condition to the Transactions or otherwise. For details on the consequences of a failure of the Transactions, see "*—Risks relating to the Group if the Transactions do not successfully close*".

As a result of the foregoing, Shareholders and Independent Shareholders, as applicable, are reminded of the importance of voting in favour of the Shareholder Resolutions. See paragraph 1 of Part I which contains a letter from the Chair of the Company.

### Shareholders will experience significant dilution to their ownership interests following completion of the Transactions

Subject to Admission, pursuant to the Firm Placing, 500,000,000 New Shares will be issued at a price of 30 pence per New Share, which represents a discount of 26.1 per cent. to the Closing Price of the Shares

on 3 November 2023, being the latest practicable date before the date of this document (the "**Reference Date**") and a 33.7 per cent. discount to the closing price of the Shares on 6 October 2023, being the last date before the Company's announcement of 8 October 2023. This will result in the issued ordinary share capital of the Company increasing by approximately 290 per cent. Consequently, a holder of Shares will experience significant dilution with respect to its relative ownership interest in the Company following completion of implementation of the Transactions. The precise level of absolute dilution a holder of Shares will suffer as a consequence of the Transactions will depend on the number of Shares that are issued upon completion of the Transactions and whether such holder of Shares is a Placee in the Firm Placing. The shareholding of Shareholders that are not Placees in the Firm Placing, as a percentage of the Enlarged Share Capital, will be diluted by 74 per cent. as a result of the Firm Placing.

**Litigation seeking to challenge the implementation of the Transactions or certain aspects of them could materially impact or prevent the successful implementation of the Transactions or result in all or part of the Transactions being declared to be unlawful and invalid retrospectively**

Previous liability management exercises and recapitalisations by other institutions in distress have demonstrated that there are entities who may seek to bring claims to stop or delay the Transactions or challenge their legitimacy or fairness. There is, therefore, a risk that the Group may become involved in disputes and legal proceedings in connection with the Transactions, and the likelihood of their occurrence or their outcome cannot be predicted in advance with any certainty. It is possible that Shareholders, holders of the Group's debt securities or other parties may seek to bring claims in court with the objective of preventing or delaying the implementation of all or part of the Transactions. The making of any of these types of claims could delay the implementation of the Transactions (whether or not such claims have merit), which could result in the failure of the Transactions.

Claims challenging elements of the Transactions, or certain aspects thereof, may also be brought after the Transactions have been implemented. Other claims brought before implementation of the Transactions may not be determined until after they are implemented. The success of these claims could result in all or part of the Transactions being declared to be unlawful and invalid retrospectively. The consequences of such a finding would largely depend on the scope of the claims and the legal basis of the finding. A finding against the Group could result in the reversal or invalidity of the Transactions (or a part thereof) and the Group failing to achieve a critical component of its strategy.

The Group may incur significant expense in connection with any such proceedings (whether seeking to challenge the implementation of the Transactions or determined after the implementation of the Transactions) even if these proceedings are ultimately concluded in favour of the Group. Moreover, an adverse decision in any one matter could lead to further claims against the Group. The costs of pursuing or defending one or more proceedings, and the outcome of any such proceedings, could also expose the Group to substantial monetary damage, other penalties and injunctive relief and/or have a negative effect on the Group's reputation, any of which could have an adverse impact on the Group's ability to deliver its strategy, and on its business, financial condition and results of operations.

**Risks relating to the Group if the Transactions do not successfully close**

**If the Transactions do not successfully close and the Group is not otherwise able to restore its capital resources, it could face a number of adverse consequences, including pre-resolution action in the form of PoNV powers or being placed into resolution with resolution action in the form of bail-in, which in each case would lead to the cancellation, transfer or dilution of the Shares, while a sale of the Group to a private purchaser (which is also a resolution action) could have a similar effect if the sale was for no or minimal consideration**

If the Transactions are not implemented, the Company expects that it would have a material adverse effect on the Group's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements, as well as its ability to refinance its debts and, as a consequence, would significantly increase the risk of resolution.

In particular, the Company believes that, if the Transactions are not successfully implemented:

- the Company (on a consolidated basis) and Metro Bank (on a solo basis) would continue to have insufficient Tier 1 capital to meet their Combined Buffer Requirement and would therefore continue to be subject to the MDA restrictions (as defined below) (i.e., in practice, the Company would continue to be unable to pay dividends on the Shares or most variable remuneration and discretionary pension benefits to its senior managers);
- there would be limited, if any, investor demand for further debt capital issuances by the Company, and accordingly it would not be possible to refinance, and as a result to repay, the Existing MREL Notes when they cease to qualify as MREL in October 2024 and/or when they mature in October 2025; and
- liquidity risks (such as high deposit withdrawal rates) may materialise quickly in response to an announcement by the Company, which could accelerate the need for pre-resolution or resolution action as discussed below.

The Company cannot predict the regulatory response (or that of the equity and debt markets and holders of its securities or the disposition of other counterparties, including depositors) to a related capital or liquidity stress. However, the Company believes that the consequences of a failure to implement the Transactions could include recovery options and early intervention measures, but the more likely actions are: (i) the exercise of PoNV powers (as defined below); and / or (ii) resolution (through the use of one or more stabilisation powers and possibly in conjunction with the use of the PoNV powers), together with a sale of the group to a third party. Whilst the Company believes that these are the most likely consequences of this scenario occurring, there can be no assurance as to the powers that the PRA or the Bank of England would exercise in such circumstances or their timing, albeit action may be swift.

***Early steps***

If the Transactions are not successful, the Company would expect to hold urgent discussions with the PRA and the Bank of England. It is impossible to predict the outcome of such discussions or the extent to which the regulatory authorities would impose institution-specific requirements on the Company or Metro Bank, as they are afforded a wide range of discretionary powers both under the prudential regulatory regime and FSMA ("business-as-usual" supervisory powers) and early intervention measures under the Special Resolution Regime ("**SRR**") (for further detail on the latter, see Part III *"Supervision and Regulation – UK Regulation – Recovery and resolution – Banking Act 2009 and BRRD"*).

The Company believes that announcing the failure of the Transactions to the market would require regulatory actions other than business-as-usual supervisory powers (such as agreeing on a revised capital conservation plan or revisions to the Group's recovery plan). In the first instance, actions such as allowing Metro Bank to access the Bank of England's sterling monetary framework ("**SMF**") liquidity facilities would be taken and taking early intervention measures such as requiring the Group to take specified actions (e.g., (i) implementing more recovery actions under its recovery plan such as selling assets or further reducing loan offers and/or (ii) making changes to the Board) would be contemplated, but are expected to be found insufficient at that point.

***Use of the PoNV Powers***

If the PRA and the Bank of England are satisfied that one or both of the Company or Metro Bank has reached the PoNV, the Bank of England must (unless it places the Company/Metro Bank straight into resolution) make use of its PoNV powers to apply mandatory write-down or conversion to the own funds instruments of the Company and Metro Bank (as relevant), including the Shares and the Existing Tier 2 Notes and relevant internal liabilities issued by Metro Bank to the Company (referred to "**PoNV powers**"). PoNV powers could be used in conjunction with resolution powers, as further described below.

The PoNV powers include cancelling, transferring or diluting CET1, such as the Shares, writing down own funds instruments in the form of debt instruments (and relevant internal liabilities when Case 2 of Section 6A of the Banking Act applies, as summarised in the second bullet point below) or converting such instruments into equity capital as a crisis prevention measure. Unlike bail-in (as to which see below), the PoNV powers neither constitute a resolution tool, nor do they extend to the write-down or conversion of liabilities other than regulatory capital (and relevant internal liabilities e.g., internal MREL). It is possible that PoNV powers are exercised simultaneously in relation to both the Company (in respect of the Shares) and Metro Bank or at one of these two levels.

The applicable triggers for the PoNV powers include the following circumstances:

- the Company or Metro Bank meets the conditions for resolution (as described below) and the Bank of England or the Treasury has decided to exercise a stabilisation power other than bail-in (as described below, there is an equivalent write-down and conversion power in the case of bail-in); and/or
- the Company or Metro Bank would no longer be viable (i.e., would be failing or likely to fail) unless the write down power were applied, and there is no reasonable prospect of other non-resolution actions restoring it to viability; and/or
- broadly, extraordinary public financial support has been provided to the Company or Metro Bank where the application of the write-down power is necessary to address a capital shortfall.

The PoNV powers can be applied either in conjunction with resolution powers (if the conditions for their use are met) or separately if the Company or Metro Bank would no longer be viable in the absence of a write down or conversion but should be restored to long term viability by the relevant write-down or conversion. Section 6B of the Banking Act provides that CET1 (i.e., the Shares) shall absorb losses first and the Bank of England has confirmed that the statutory hierarchy of the relevant instruments will be respected in resolution (as was the case with the use of PoNV powers in relation to AT1 and T2 instruments in a recent UK bank resolution). Accordingly, the Shares will be cancelled, transferred or diluted first, with the Existing Tier 2 Notes written down or converted as required to meet the special resolution objectives, followed by internal MREL if necessary. PoNV powers cannot be used on the Company's Existing MREL Notes.

There are certain potential compensation provisions in the Banking Act in respect of the use of PoNV powers, but the "no creditor worse off" safeguard (as set out below) would not apply in relation to an application of the PoNV powers to own funds instruments and internal MREL in circumstances where resolution powers are not also exercised.

***Entry into formal resolution***

If, as the Company expected, early intervention measures and pre-resolution measures (such as the exercise of PoNV powers) will not be sufficient to stabilise the Company, placing the Company into formal resolution would be required (either in conjunction with the exercise of PoNV powers or as an alternative). The use of PoNV powers could be considered insufficient to stabilise the Group for a number of reasons, including because a write-down of the Existing MREL Notes is required to be able to exercise the preferred stabilisation option (e.g., sale to a third party).

Whilst the Group's resolution strategy is a single point of entry bail-in strategy (i.e. it contemplates the use of a stabilisation option at the level of the Company), it is possible that both the Company and Metro Bank are placed into formal resolution at the same time, as discussed below. The Company and/or Metro Bank may only be placed into resolution if a number of conditions are satisfied. The first condition is that the PRA must determine that the Company and/or Metro Bank is "failing or likely to fail" ("**FOLTF**") by reference to one or more specific conditions being met:

- it is failing, or is likely to fail, to satisfy the 'threshold conditions' (the conditions that must be met for a firm to obtain and maintain its authorisation including financial resources adequacy) in a manner that would justify the withdrawal or variation of Metro Bank's authorisation (these include insufficient financial resources); and/or
- the value of its assets are, or will in the near future be, less than the value of its liabilities; and/or
- it is, or will in the near future be, unable to pay its debts or other liabilities as they fall due; and/or
- broadly, it requires extraordinary public financial support.

If the PRA were to conclude (following consultation with the Bank of England) that the Company and/or Metro Bank is FOLTF, the Bank of England as resolution authority, in consultation with the PRA, the FCA and HMT, would have to determine that certain resolution conditions are met including:

- having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of Metro Bank that will result in it no longer failing or being likely to fail;
- a resolution of the Company is necessary having regard to the public interest, in the advancement of one or more of the special resolution objectives; and/or
- one or more of the special resolution objectives would not be met to the same extent by the winding up of the Company or Metro Bank.

If the PRA were to determine that the Company or Metro Bank was FOLTF, whether or not the other resolution conditions will be met is a question of fact for the Bank of England to determine, including whether any other recovery or pre-resolution actions would be sufficient to stabilise the Company / Metro Bank or whether the Company / Metro Bank would continue to be FOLTF thereafter. Based on Metro Bank's systemic importance (it is the tenth largest bank in the UK mostly offering retail banking services) and the low probability of finding another commercial alternative to recapitalise the Group immediately after the failure of the Transactions, it would appear to the Company probable that all resolution conditions would be deemed met if the Company / Metro Bank was determined by regulators to be FOLTF.

***Bail-in***

If the Bank of England placed the Company or Metro Bank into formal resolution, five main stabilisation options i.e., resolution tools, would be available to the Bank of England. See Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*". In respect of the Group, the Bank of England has stated that the preferred resolution strategy is a bail-in strategy with a single point of entry at the level of the Company. However, the Company expects that the Bank of England may also exercise the PoNV powers or bail-in powers at the level of Metro Bank in parallel or in isolation (in which case the Company's holdings in Metro Bank would be diluted).

If bail-in was used (either on its own or in combination with other resolution powers), it would result in the cancellation, transfer or dilution of the Shares and likely the write down or conversion of (as applicable) Metro Bank's and the Company's other own funds, including the Existing Tier 2 Notes, then the Existing MREL Notes, and, if necessary, other bail-inable liabilities in order to recapitalise the Group and allow for Metro Bank to remain operational throughout the resolution. The actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, as all available options could be considered by the Bank of England.

The SRR requires the bail-in tool to be exercised in accordance with the insolvency ranking of creditors. The order of bail-in is predetermined in the Banking Act with, broadly, CET1 instruments (such as the Shares), being bailed in first (by way of cancellation, dilution or transfer), followed by AT1 (of which there is none), then Tier 2 (such as the Existing Tier 2 Notes) and then MREL (such as the Existing MREL Notes). Following the write-down or conversion of all such capital instruments and MREL, the Bank of England would (if required) exercise the bail-in tool on other unsecured liabilities in accordance with their insolvency ranking. The UK has implemented preferential treatment of certain eligible deposits from natural persons and micro, small and medium-sized enterprises above the specified deposit cover, as well as certain amendments relating to the bail-in order of liabilities of financial institutions, as further described in Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*". Secured creditors, depositors up to the Financial Services Compensation Scheme ("**FSCS**") cover and certain other excluded claims will not be subject to bail-in. Consequently, it is anticipated that any such use of the bail-in tool by the Bank of England (either on its own or in combination with other resolution powers) would have a material adverse effect on Shareholders, as their claims would be cancelled, transferred or severely diluted (if not already under the PoNV powers) for the purposes of stabilisation and loss absorption.

***Private sector purchase tool or other stabilisation options***

Although the Bank of England's preferred resolution strategy for the Group is bail-in, recent events have shown that the Bank of England is afforded flexibility to change a group's resolution strategy, including during a resolution weekend, depending on the circumstances and the expected market impact of resolution action. In particular, per paragraph 4.2 of the MREL SoP, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objectives. If it would better meet the resolution objectives in the circumstances at the time of failure, the Bank of England could opt for the sale of all or part of the Group to a private purchaser either as an alternative to bail-in or in conjunction with use of the bail-in power.

The Company believes this to be a probable course of resolution action in respect of the Company or Metro Bank, if the resolution conditions are met in relation thereto. This could be effected by the use of the private purchaser tool under which the Bank of England would make a resolution order by way of a share transfer or asset transfer instrument to transfer the Group as a whole or in part to a private entity. A share transfer to a private purchaser could have a similar impact on Shareholders as bail-in (as they would lose all rights and entitlements on the Shares, probably with limited or no consideration) and the Company expects it would be combined with bail-in or PoNV powers in order to achieve the write-down of the Company's

and / or Metro Bank's debt capital instruments. Whilst PoNV powers would not affect the Existing MREL Notes, the private purchaser tool could be used in conjunction with the bail-in tool so as to write-down the Existing MREL Notes.

It is at least technically possible that bail-in or PoNV powers and the private purchaser tool could alternatively be applied in respect of Metro Bank only, leaving the Company with no assets and unable to meet its liabilities under the Existing MREL Notes. In such circumstances, the Company would be highly likely to enter insolvency proceedings and the Shares would likely have no value.

For further detail on the stabilisation powers (i.e., resolution tools) under the SRR, see Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*".

***Other resolution powers***

There is a wide toolkit of ancillary resolution powers to be used in conjunction with the main stabilisation option – for example, the Bank of England may suspend or discontinue the listing of the Shares, the Existing Tier 2 Notes and the Existing MREL Notes and may suspend third parties' termination, and security enforcement rights against the Company or Metro Bank during the resolution weekend. The terms of the Shares could also be altered and payments could be suspended for a certain period. Rights of set-off could, subject to safeguards, also be affected. There can be no assurance that the use of any resolution tools or powers by the resolution authority or the manner in which they are exercised will not materially adversely affect Shareholders as holders of the Shares, the market value of the Shares and/or the Company's ability to satisfy any liabilities or obligations it has to Shareholders.

***No creditor worse off***

The SRR requires the resolution tools (stabilisation options) to be exercised in accordance with the general principle that no creditor shall incur greater losses than would have been incurred if the bank had been wound up under normal insolvency proceedings (the "no creditor worse off" principle).

The "no creditor worse off" principle means that, in certain circumstances, a Shareholder or creditor of the Company or Metro Bank may have a right to compensation if the treatment that they receive as a result of the resolution authority exercising a stabilisation option is less favourable than the treatment that they would have received under normal insolvency proceedings. Compensation payments, if any, may however be considerably later than contractual payment dates (in the same way that there may be a delay in recovering value in the event of insolvency).

***Importance of vote***

As a result of the foregoing, Shareholders and Independent Shareholders, as applicable, are reminded of the importance of voting in favour of the Shareholder Resolutions. See Part I which contains a letter from the Chair of the Company.

**Risks relating to the operation of the Group's business**

**The Group's business is subject to inherent risks arising from macroeconomic conditions in, and which affect, the UK, both generally and as they specifically affect financial institutions**

As the Group's revenue is derived almost entirely from customers based in the UK and its business operates only in the UK, it is particularly exposed to the condition of the UK economy. In addition, as a high street bank, demand for the Group's products and services are influenced in particular by the economic condition of its retail and commercial (including SME) customers. As a result of a variety of factors, including the crisis in Gaza, the war in Ukraine and its consequent impact on energy prices, as well as the unwinding of monetary support measures implemented by governments during the COVID-19 pandemic, the UK economy is currently experiencing a period of persistently high inflation and economic stagnation, which is driving cost of living challenges. To address inflation, the Bank of England began to reverse its historically low interest rates by increasing the base rate from 0.10 per cent. in 2020 to 0.25 per cent. on 16 December 2021, which was followed by further interest rate increases throughout 2022 and 2023 to date, with the current base rate now being 5.25 per cent. As a consequence of these actions and the economic outlook for the UK, gilt yields have continued to rise, and UK public sector net debt now exceeds 100 per cent. of GDP for the first time since 1961. In addition, in October 2022, Fitch Ratings ("**Fitch**") changed its outlook on the UK from stable to negative. Further market turbulence cannot be excluded, due to the risk of policy error and an uncertain political backdrop. This is particularly in focus at present, as the current Government must call for a new general election which must be held by the end of January 2025. Furthermore, the UK has a large current account deficit which has to be funded by attracting capital inflows, leaving the UK

vulnerable to shifts in sentiment. Risk premia may continue to attach to UK assets as a result of recent events and ongoing uncertainty.

These factors have had an adverse impact on corporate profits and personal incomes and have adversely affected business and consumer confidence, as well as demand for the Group's products and services. Macroeconomic factors are likely to impact retail and commercial banking customers through higher cost of borrowing, in particular as existing fixed term mortgage contracts come up for renewal in the current rate environment but also due to increased competition from banks to attract deposits. As interest rates climb and inflation continues to impact the cost of living, it is likely that customers will become more sensitive to rising interest rates. Moreover, the high inflationary environment is continuing to put pressure on wages, which is in turn putting additional cost pressure on firms of all sizes, including the Group. In addition, the foregoing factors have increased the likelihood that the UK enters a recession. This could lead to an increase in unemployment, which has historically resulted in a decrease in new mortgage borrowing and reduced or deferred levels of spending, as well as an increase in arrears, impairment provisions and defaults, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Deterioration in economic conditions in the Eurozone and globally, including instability in financial markets, also poses a risk to the Group's business, despite the fact that it has no direct financial exposure outside of the UK and only minimal credit risk exposure outside of the UK. For example, as a result of the impact of the war in Ukraine on energy prices in the UK, the Group's costs to operate its stores have increased. The UK financial markets, as well as the UK housing market, could be negatively impacted (as they have been in the past) by a number of global macroeconomic events, including ongoing concerns surrounding, for example, a weakening of the Chinese economy, rising inflation levels and volatility in commodity prices. The effects of these events have been felt in the UK economy, and by UK financial institutions in particular, due to strains on funding markets. Furthermore, given the interdependence between financial institutions, the Group is, and will continue to be, subject to the risk of deterioration or perceived deterioration of the commercial and financial soundness of other financial services institutions, both in the UK and beyond. Within the financial services industry, the default of any institution could lead to defaults, liquidity problems and losses by other institutions, including the Group, which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group faces risks relating to volatility in UK real estate**

A significant portion of the Group's revenue is derived from interest and fees paid on its mortgage portfolio. As at 30 June 2023, £7,591 million, or 59 per cent. (31 December 2022, £7,649 million, or 58 per cent.; 31 December 2021, £6,723 million, or 54 per cent.; 31 December 2020, £6,892 million, or 56 per cent.), of the Group's gross loans and advances to customers were retail mortgages. Downturns in the UK economy have in the past had a negative effect on the UK housing market, and any future downturn could have a similar effect. Generally, a decline in house prices in the UK could lead to a reduction in the recovery value of real estate assets held as collateral in the event of a customer default, and could lead to higher impairment provisions, which could reduce the Group's capital and its ability to engage in lending and other income-generating activities, and therefore its profitability. Increasing interest rates have also adversely affected, among others, the retail mortgage loan market, as set out in "*The Group faces risks associated with interest rate levels and volatility*". Conversely, a significant increase in house prices over a short period of time could also have a negative impact on the Group by reducing the affordability of homes for buyers, which could lead to a reduction in demand for new mortgages. Sustained volatility in house prices could also discourage potential homebuyers from committing to a purchase, thereby limiting the Group's ability to grow its mortgage portfolio.

The recent and sustained rise in the Bank of England base rate has had an equivalent impact on mortgage interest rates being offered by all lenders on both new mortgage and re-mortgage applications. Mortgage interest rates are now significantly higher than they were two years ago, and this means that many existing mortgage holders who are coming to the end of a fixed-term mortgage will see a significant increase in their monthly mortgage repayments. Some mortgage customers may not be able to afford the interest payments applicable to their mortgages when they switch to a variable rate or a new fixed term rate, and/or may not qualify for new mortgage products (at higher rates) if they seek to refinance their existing homes, any of which could lead to increased mortgage defaults. In June 2023, the Government announced a 'Mortgage Charter', which set out a series of temporary measures designed to soften the impact of repayment hikes, with measures such as customers being able to switch to interest-only mortgages or to extend their mortgage term to reduce their monthly payments, with the option of switching back within six months, without affecting their credit score or any affordability tests. The Group has signed up to the Mortgage Charter and

will support those customers who opt to make use of the new measures put in place. While the Group does not currently expect significant take-up from its mortgage base, such take-up could be higher than expected due to factors such as a further deterioration in the wider UK economy. If the Group's mortgage base does make significant use of these temporary measures, it could have a material adverse effect on the Group's business, financial condition and results of operations.

While the Group's mortgage portfolio has some protection due to its loan to value mix, the mortgage portfolio, like its customer base, is concentrated in London and the South East. As at 30 June 2023, 65 per cent. and 72 per cent. of the Group's retail mortgage portfolio and commercial term lending (excluding lending under the Government's Bounce Back Loan Scheme ("**BBLS**")), respectively, was concentrated in Greater London and South East England. In addition, the buy-to-let market in the UK, which is predominantly dependent on yields from rental income to support mortgage interest payments, has also slowed (28 per cent. of the Group's retail mortgage portfolio was retail buy-to-let as at 30 June 2023). Although rental rates remain robust at present, falling or flat rental rates and decreasing capital values, whether coupled with higher mortgage interest rates or not, could reduce the potential returns from buy-to-let properties.

In addition, any new governmental rules could decrease demand for buy-to-let property investments, and any changes to or new stamp duty land tax or other taxes payable on residential properties (including the reversal of the temporary increase in the residential nil-rate threshold for stamp duty land tax announced by the Government in September 2022, and which is expected to happen on 31 March 2025) could also decrease mortgage demand.

These factors may negatively affect mortgage supply and demand. The future impact of these initiatives on the UK housing market and other regulatory changes or Government programmes is difficult to predict. Volatility in the UK housing market occurring as a result of these changes, or for any other reason, could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group faces risks associated with interest rate levels and volatility**

Interest rates, which are impacted by factors outside of the Group's control, including the fiscal and monetary policies of governments and central banks, as well as UK and international political and economic conditions, will affect the Group's results, profitability and return on capital in three principal areas: cost and availability of funding, margins and revenues, and impairment levels.

In response to rising inflation and other macroeconomic factors, the Bank of England began to reverse its historically low interest rates by increasing the base rate from 0.10 per cent. in 2020 to 0.25 per cent. on 16 December 2021, which was followed by further interest rate increases throughout 2022 and 2023 to date, with the current base rate now being 5.25 per cent. As at 30 June 2023, 46 per cent. (31 December 2022, 49 per cent.; 31 December 2021, 44 per cent.; 31 December 2020, 39 per cent.) of the Group's deposits from customers were demand current accounts, and in an increasing interest rate environment, the Group may be required to pay higher interest rates to customers on their deposits, leaving it more exposed to the re-pricing of its liabilities than competitors with higher levels of term deposits. In the event of sudden large or frequent increases in interest rates, such as were seen in the third and fourth quarters of 2022 and the first and second quarters of 2023, the Group also may not be able to re-price its floating rate assets and liabilities at the same time, giving rise to re-pricing gaps in the short term, which, in turn, can negatively affect its NIM (as defined herein) and revenue. Rising interest rates also affect the Group's cost and availability of wholesale financing, as it will be required to pay higher interest rates on any borrowings or other indebtedness. For further details on how interest rates affect the Group's cost and availability of funding, see "*—The Group's business is subject to risks relating to the cost and availability of liquidity and funding*".

Changes in interest rates could also impact the Group's loan impairment levels and customer affordability. As at 30 June 2023, 26 per cent. (31 December 2022, 25 per cent.; 31 December 2021, 27 per cent.; 31 December 2020, 24 per cent.) of the Group's loans and advances to customers were variable rate. The rise in interest rates, without sufficient improvement in customer earnings or employment levels, may lead to an increase in default rates among customers with variable rate loans who can no longer afford their repayments, in turn leading to increased impairment charges and lower profitability for the Group. In particular, many customers who purchased term lending products, such as fixed-rate mortgages with a two, three or five-year fixed rate period in a lower interest rate environment, will see their fixed rate period come to an end soon, as the Group expects £676 million of mortgages, or 8.5 per cent. of its total mortgage portfolio, to reach the end of their fixed rate period in 2023. Following the end of the fixed-rate period, these mortgages will be subject to significantly higher variable rates on their loans, as well as a mortgage

loan refinance market characterised by significantly higher interest rates than was the case when those mortgages were originally taken out. Some of the Group's customers may not be able to afford the interest payments applicable to their mortgages when they switch to a variable rate and/or may not qualify for new mortgage products (at higher rates) if they seek to refinance their existing homes, any of which could lead to increased mortgage defaults.

A high interest rate environment could also reduce demand for loan products generally, as individuals are less likely or less able to borrow when interest rates are high, and thereby reduce the Group's revenue. In addition, given that a considerable proportion of the Group's loans and advances to customers are variable rate and repayable without penalty, there is a risk that a sudden rise in interest rates, or an expectation thereof, could encourage significant demand for fixed rate products. High levels of movement between products in a concentrated time period could put pressure on the Group's business and operational capability, and the Group may not be willing or able to price its fixed rate products as competitively as others in the market. This could lead to customer attrition and, consequently, adversely affect the Group's capacity to lend and therefore its profitability.

Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group faces risks associated with the implementation of its strategy**

The Group's strategy is based on the following five key pillars: (i) creating FANS to deliver strong income growth; (ii) continuing to focus on risk-adjusted returns and balance sheet optimisation; (iii) targeting low marginal costs to support profitable growth and reinvestment; (iv) protecting value through safe, scalable infrastructure; and (v) engaging colleagues, communities and other stakeholders to push forward Metro Bank's story.

The implementation of the strategy is subject to a number of risks, including operational, financial, macroeconomic, market, pricing and technological challenges, and there can be no guarantee that the Group will be able to achieve these goals, or that these goals will have their desired operational effect. The Group had 76 stores as at the date of this document. Subject to the successful completion of the Transactions, the Group currently remains committed to the opening of a further 11 stores in the North of England, the operational costs pre- and post-launch of which will be funded in part by the Group's grant from the C&I Fund (as defined herein). The Group has committed to the BCR (as defined herein) to open these stores by 31 December 2025. However, if it does not do so, it will be required to pay these funds back plus interest of 8 per cent. above the Bank of England base rate on any unspent funds per annum since receipt of those funds. Moreover, the Group may be subject to related reputational damage and negative media coverage.

The Group may also consider modifying its store layout, design and size to better fit future community and customer requirements. However, there can be no assurance that the Group's store strategy will result in its existing stores increasing their contribution to the Group's profitability, and the Group could further reduce its current expansion plans in light of operational, macroeconomic or other factors post having concluded the C&I Fund investments and commitments.

The success of the Group's strategy will depend on it significantly increasing the number of new customer accounts, either through new customer acquisition or existing customers opening new accounts. The Group's strategy envisages growing deposits over the medium term, with an emphasis on relationship current accounts and variable deposit accounts. However, there can be no guarantee that the Group will be successful in gaining the number or type of deposit accounts that it seeks, which could limit its funding base and its profitability.

In relation to its lending business, the Group seeks to shift the mix of its loan portfolio to maximise risk-adjusted returns on regulatory capital and reduce the proportion of loans relating to commercial property. However, implementing this strategy will require the Group's management to make complex judgements, including identifying suitable borrowers for the expansion of its retail mortgage book, and structuring and pricing its products competitively.

The Group also intends to expand income through new value-added services, particularly for small and medium-sized enterprises ("**SMEs**"). For example, it may broaden its online business account offerings and expand its payments and cash management offerings for SMEs. In addition, the Group began offering pet insurance and SME insurance products via a third-party provider in 2021. However, there can be no assurance that the Group will be able to price competitively, design or implement these offerings, or that its customers will take up these new services as targeted.

The Group's strategy also depends on its ability to increase cost efficiencies across its business. To achieve this, the Group will need to reduce expenditures for both its back and front office functions, as well as for its stores. There can be no guarantee that any of the Group's cost-saving initiatives, such as digitisation and automation programmes, will be implemented in a timely manner, or that they will produce the targeted efficiencies.

While the Group does not currently intend to make further acquisitions, it may from time to time acquire other businesses. For instance, in 2020, the Group acquired Retail Money Market Limited and its *RateSetter* brand. However, there can be no assurance that the Group will be able to successfully complete these acquisitions, or that it will be able to realise the intended benefits of these acquisitions or that it will not face unanticipated costs or other difficulties in connection with these acquisitions.

The Group may also seek to undertake securitisation transactions or loan portfolio sales (such as the Asset Sale) as part of its strategy. However, there can be no assurance that the Group will be able to undertake these transactions on favourable terms or at all.

The inability of the Group to implement its strategy for any of the reasons noted above or otherwise would require it to re-evaluate its strategic plans, which could have a material adverse effect on its business, financial condition and results of operations.

**The Group has announced its intention to sell up to £3.0 billion of its residential loan portfolio. There is a risk that it will be unable to sell these assets successfully, or that it may incur greater than expected costs or experience delays in relation to such asset sales, which could adversely impact its regulatory capital position and its ability to comply with its regulatory capital requirements**

The Group is in discussions to sell up to £3.0 billion of its residential loan portfolio by the end of 2023 (the "**Asset Sale**"), and is seeking to do so at a price which is accretive to the Group's CET1 ratio and MREL ratio (each term as defined below). However, the Group's ability to do so is contingent on it finding a willing buyer and negotiating favourable terms, as well as on the retail mortgage portfolio sale market, which may be impacted by factors beyond the Group's control, such as macro-economic conditions. As such, there can be no assurance that the Group will be able to sell these assets, either on capital efficient terms or at all. If the Group is unable to sell these assets, its capital ratios could be adversely affected, which could adversely affect its business, financial condition and results of operations.

**Claims, investigations and litigation could adversely affect the Group's brand, reputation and earnings**

The Group is subject to the risk of claims, litigation and regulatory proceedings in the course of its business. These risks may arise for a number of reasons, including that: (i) the Group's business may not be, or may not have been, conducted in accordance with applicable laws or regulations; (ii) contractual obligations may either not be enforceable as intended or may be enforced in a way that is adverse to the Group; or (iii) liability for damages may be incurred to third parties harmed by the conduct of the Group's business. There can be no assurance that the Group will prevail in any future litigation or regulatory proceedings.

In December 2022, a fine of £10,002,300 was imposed on Metro Bank by the FCA for contravention of Listing Rule 1.3.3R in relation to a disclosure regarding its RWAs in October 2018, prior to Metro Bank's adjustment of its RWAs in the amount of approximately £900 million (the "**RWA Matter**"), which was announced in January 2019. In December 2021, the PRA fined Metro Bank £5,376,000 for rule breaches associated with the RWA Matter. While the regulatory investigations into Metro Bank relating to the RWA Matter have now concluded, the RWA Matter may further negatively impact the Group's brand, reputation and share price, as well as the secondary market pricing of its listed debt securities, and could lead to further adverse consequences, including civil litigation, which could be material.

The Group is also subject to other ongoing claims, investigations and litigation (including enquiries from the FCA regarding its financial crime systems and controls as well as civil litigation with Arkeyo LLC). For further details, please see paragraph 27 of Part X.

Any litigation, claims, investigations (including the Arkeyo claim) or other proceedings, whether or not determined in the Group's favour or settled by the Group, could be costly and may divert the efforts and attention of the Group's management and other personnel from normal business operations. In addition, any related proceedings could adversely affect the Group's reputation and the market's perception of the Group and the products and services that it offers, as well as customer demand for those products and services, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group relies on the success of its brands, and it is subject to reputational harm that could damage its brands**

The Group's success relies significantly on the strength of the *Metro Bank* brand and, to a lesser extent, on the *RateSetter* brand, which it acquired as part of its acquisition of Retail Money Market Limited in 2020. There can be no assurance that the Group will be able to continue to successfully develop the *Metro Bank* brand's reach to grow market share. This is particularly the case as the Group's strategy has been, and is expected to continue to be, reliant on its direct distribution channels in the communities it serves (comprising its highly visible stores, mobile and internet offerings, and local contact centres, together with its unique customer service proposition) to increase its brand's awareness and foster deposit growth. In addition, the Group has recently entered a new deal with the English Cricket Board (the "**ECB**") until the end of 2028 to be the exclusive partner to the ECB for women's and girls' cricket. The partnership deal is designed to raise awareness of the *Metro Bank* brand nationally while reinforcing the local community values Metro Bank seeks to promote.

The Group believes that its brands are closely associated with its values, which emphasise customer service. The Group's values could be compromised due to competitive pressures, and its brands could be damaged by reputational harm, which could arise by failing to address, or appearing to fail to address, a variety of issues, such as:

- poor customer service;
- technology failures;
- cybersecurity breaches and fraud;
- breaching, or facing allegations of having breached, legal and regulatory requirements;
- committing, or facing allegations of having committed, or being associated with those who have or are accused of committing, unethical practices;
- litigation claims;
- failing to maintain appropriate standards of customer privacy and record keeping;
- failing to maintain appropriate standards of corporate governance;
- the failure of intermediaries and other third parties on whom the Group relies, such as clearing banks, third-party mortgage servicing agents or partners, to provide necessary services;
- related party transactions; and
- poor business performance.

As a result, damage to its brands or reputation could cause the Group to lose existing customers or fail to gain new customers, which could result in rapid and material negative operational and financial effects, including the loss of significant amounts of customer deposits.

Although the Group has acquired the trademark "Metrobank" in the UK, the "Metro" name is widely used by a variety of businesses in the UK, including other FCA-authorised businesses, and in the rest of Europe. Consequently, there is a risk that the Group's trademark registration for the word "Metrobank" and the wider use of the "Metro Bank" name (for which the Group does not hold a trademark) might be challenged by the owner of another similar trademark. If a challenge were to be successful, the Group could be forced to re-brand under a new name at considerable cost and disruption to the business. In addition, the use of the "Metrobank" name by a bank which is not part of the Group outside of the UK may confuse customers, and any damage to the reputation of banks operating with similar trade names could also be detrimental to the Group.

An inability to manage risks relating to its brands for any reason could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group has not received AIRB accreditation and there can be no assurance when or if it will be received**

The Group has been pursuing AIRB accreditation since 2016 in order to optimise its capital management. The Group and the PRA have undertaken significant work to date on the Company's AIRB application for retail mortgages. In September 2023, the PRA indicated that more work is required in connection with the Company's AIRB application, as a result of which approval will not be attained during 2023. While the Group continues to engage with the PRA on its application, there can be no certainty that approval will be

obtained, or, if it is obtained, the timing of any approval or the level of any reduction in RWAs and consequential reduction in regulatory capital requirements that might be achieved.

If AIRB permission is not granted, the Group will continue calculating its capital requirements for credit risk (including in respect of its residential mortgage book) using the standardised approach, which is less risk-sensitive and tends to lead to higher RWAs than AIRB, which in turn constrains the Group's ability to grow its loan portfolio compared to its ability to do so under AIRB.

If AIRB permission is granted, the Group would expect to see capital benefits in the form of reduced RWAs, although this benefit could be partly offset by a potential increase in the Group's Pillar 2A requirements to deal with any idiosyncratic risks during the first stage of usage of the new model. In addition, some of the capital benefits (if any) of obtaining AIRB permission would be adversely affected by the implementation of the output floor under UK Basel 3.1 (as defined below). For further details, see Part III "*Supervision and Regulation—UK Regulation*". Furthermore, if any material implementation issues arise, model permissions could be modified or withdrawn by the PRA, which could decrease the capital benefit the Group would otherwise receive from gaining AIRB permission.

**The success of the Group's strategy will depend in part on its ability to raise further own funds and MREL-eligible debt**

Assuming the successful close of the Transactions, in order to maintain a strong capital position and support its strategic goals, the Group may, from time to time, need to raise further own funds and other MREL-eligible debt. The Company, which is the single point of entry resolution entity, is expected to be the entity which will be used in the future to issue any own funds and external MREL to the market at a future time on a structurally subordinated basis. There can be no guarantee, however, that the Group will be able to raise external own funds and other MREL-eligible debt in wholesale funding markets on attractive market terms, when planned or at all. For further details, see "*—Risks relating to the Group if the Transactions do not successfully close—If the Transactions do not successfully close, the Group could face a number of adverse consequences, with the most probably outcome being placed into resolution. Resolution action in the form of PoNV powers or bail-in would lead to the cancellation, transfer or dilution of the Shares, while a sale of the Group to a private purchaser could have a similar effect if the sale was for no or minimal consideration*".

The inability of the Group to raise further own funds and MREL-eligible debt in the future could also require it to re-evaluate its strategic plans, which could have a material adverse effect on its business, financial condition and results of operations. If the Transactions are successfully completed, the Group does not anticipate the need to raise further own funds and MREL-eligible debt in the short term.

**The Group's business is subject to risks relating to the cost and availability of liquidity and funding**

The availability of retail, small business and commercial deposits, which is the Group's primary source of funding, may be impacted by a variety of factors, including customer confidence in the Group, increased competition from other deposit-takers, regulatory or reputational concerns, or factors that constrain the volume of liquidity in the market. For example, the Group noticed an increase in deposit outflow rates in advance of the announcement of the Transactions on 8 October 2023, although daily flows have returned to more normal ranges.

In addition, the Group has in the past drawn funding from the Bank of England's Term Funding Scheme ("**TFS**"), which provided wholesale funding at the bank rate. In 2021, £3,250 million of the Group's TFS drawings were refinanced into the Bank of England's Term Funding for Small and Medium Enterprises ("**TFSME**"), which ran from 15 April 2020 to 31 October 2021, and which was designed to support banks and building societies which were finding it difficult to reduce deposit rates much further in a low interest rate environment. The total amount the Group drew down under TFSME was £3,800 million as at 31 December 2021, at an interest rate maintained at the prevailing Bank of England base rate. The Group's outstanding drawdowns will mature in 2025 and 2027 in the amounts of £1,860 million and £1,390 million, respectively, and the Group intends to repay these balances by using (i) excess liquidity from its treasury portfolio, (ii) deposit growth over the coming years and (iii) market wholesale funding. By participating in this scheme, the Group reduced the need to fund itself in the wholesale and retail markets. As the scheme has now closed, the Group will face increased competition for wholesale funding, which could reduce the amount of wholesale funding it is able to access on acceptable terms. In addition, in light of the current market rate environment, it is expected that such wholesale funding would be more expensive to borrow than TFSME funding.

The Group's ability to access retail, small business and commercial deposits on satisfactory economic terms is also subject to a variety of factors, a number of which are outside its control, including interest rates (as further discussed in the risk entitled "*—Risks relating to the operation of the Group's business—The Group faces risks associated with interest rate levels and volatility*"), liquidity constraints, general market conditions, increased competition, regulatory requirements and confidence in the UK banking system, as well as specific concerns regarding the Group's financial condition.

Despite Metro Bank's LCR of 214 per cent. as at 30 June 2023 (213 per cent as at 31 December 2022), liquidity constraints may impair the Group's ability to meet regulatory liquidity requirements or financial and lending commitments. A failure to manage these or any other risks relating to the cost and availability of liquidity and funding may have a material adverse effect on the Group's continued ability to grow and on its business, financial condition and results of operations.

**A further downgrade of the Group's credit rating could adversely affect its operations, financial condition and prospects**

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. Credit ratings of the Group and its issued debt are based on a number of factors, including the Group's financial strength, the strength of the UK economy and conditions affecting the financial services industry generally.

Any further downgrade in the external credit ratings assigned to the Group could have an adverse impact on the Group. In particular, a downgrade in the Group's credit ratings could increase its borrowing costs and could require it to post additional collateral or take other actions under some of its derivatives, loan facilities or other financial contracts, and could limit its access to capital markets and have a material adverse effect on its financial condition and results of operations. For example, a credit rating downgrade could have a material adverse effect on the Group's ability to sell or market certain of its products, engage in certain longer-term or derivatives transactions and retain its customers or investors, particularly those who need a minimum rating threshold to transact or invest.

Any of these results of a credit rating downgrade could, in turn, result in outflows and reduce the Group's liquidity and have an adverse effect on the Group, including its business, financial condition and results of operations. However, while certain potential impacts are contractual and quantifiable, the full consequences of a credit rating downgrade are inherently uncertain, as they depend upon numerous dynamic, complex and inter-related factors and assumptions, including market conditions at the time of any downgrade, whether any downgrade of a firm's long-term credit rating precipitates downgrades to its short-term credit rating, whether any downgrade precipitates changes to the way that the financial institutions sector is rated, and assumptions about the ratings of other financial institutions and the potential behaviours of various customers, investors and counterparties. Actual outflows will also depend on certain other factors, including any management or restructuring actions that could be taken to reduce cash outflows and the potential liquidity impact from a loss of unsecured funding (such as from money market funds) or loss of secured funding capacity.

Pending completion of the Transactions, Fitch has assigned the Company a long-term credit rating of B, and Metro Bank a long-term credit rating of B+, in each case with a Ratings Watch Evolving ("**RWE**") outlook. In addition, following the announcement of the Transactions, Fitch downgraded the Company's and Metro Bank's viability rating from b to c and removed these ratings from its Ratings Watch Negative list. Furthermore, it downgraded the Existing Tier 2 Notes' credit rating from CCC+ to C. While Fitch has said it intends to resolve its RWE and to immediately upgrade the ratings of the Company and Metro Bank upon completion of the Transactions, there can be no assurance that it will do so. There can also be no assurance that the Group's future credit ratings or outlooks will not change. A failure to maintain favourable credit ratings or outlooks could increase the Group's cost of funding, adversely affect the Group's interest margins, and reduce its ability to secure both long-term and short-term funding. The occurrence of any of these events could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group faces competition-related risks**

The market for financial services in the UK is highly competitive, and competition may intensify in response to consumer demand, technological changes, the impact of market consolidation and new market entrants, regulatory actions and other factors. The financial services markets in which the Group operates are mature, and growth by any bank typically requires obtaining market share from competitors. Competition has placed pressure on the Group's NIM in recent years. While other UK banks have faced similar NIM pressures, larger UK banks have generally been relatively more insulated from these declines compared to

smaller banks such as the Group, and while the Group's NIM levels have recovered in recent periods, there can be no assurance that this recovery will be maintained.

The Group faces competition from established providers of financial services, including banks and building societies, some of which have substantially greater scale and financial resources, broader product offerings and more extensive distribution networks. In addition, the Group applies the "standardised" approach to credit risk, which estimates the capital required for its banking book exposures, including its lending portfolios, on the basis of regulatory formulae and is less risk-sensitive, leading to higher RWAs. Certain competitors use the internal ratings-based approach, which allows them to hold less capital against their lending than the standardised approach, thus potentially freeing up more capital to support additional lending to customers than is available to the Group under the standardised approach.

While the Group has not historically incurred material traditional marketing expenditure on its products and services to raise its profile in the UK banking market, it has recently begun to do so, through efforts such as its partnership deal with the ECB. However, there can be no assurance that these marketing efforts will be successful, or that the benefits will outweigh the costs. In addition, due to their scale, many of the Group's established competitors are able to cross-subsidise their product offerings more efficiently than the Group, as profits in certain businesses allow them to absorb losses for longer periods to develop other business lines. For example, more established competitors may have greater resources to devote to expanding their digital offerings than the Group, which may put the Group at a competitive disadvantage in attracting or retaining customers. In addition, as a result of their large established deposit and asset base, more mature banks and international banks are often better positioned to offer cash incentives to attract new customers, as well as higher temporary "teaser" interest rates for deposits or lower temporary rates for loans to attract new customers. The Group makes sparing use of such measures as customer acquisition tools, focusing instead on its superior service offering.

The Group also faces potential competition from new banks in the UK, banking businesses developed by large non-financial companies, other "challenger bank" entrants, and fundamentally new entrants into the UK banking sector, such as peer-to-peer lending platforms, internet-only banks and other financial technology entities.

Furthermore, the Group faces competitive pressure in relation to the payment systems it uses in connection with its debit and credit cards from both established and non-traditional payments processors. The Group relies on certain competitors to provide important payment clearing services, and these competitors could impose significant fees or restrictions on the Group to access these systems. In addition, companies that promote disintermediation in payment systems, such as PayPal and Apple Pay, are increasingly used by customers to process merchant transactions, and these companies may capture an increased share of payment transaction revenue that would otherwise be earned by the Group.

The foregoing competitive dynamics to which the Group is exposed and the inability of the Group to navigate them successfully could have a material adverse effect on its business, financial condition and results of operations.

**The Group is exposed to risks relating to relationships with intermediaries, including brokers and aggregators**

The Group relies on its network of intermediaries, including mortgage brokers and aggregators, to originate a large portion of loans for its mortgage, unsecured loan and asset finance portfolios, and it has limited direct oversight of intermediaries' interactions with prospective customers. If intermediaries violate applicable regulations or standards when selling the Group's products, the Group's reputation could be harmed, and it could suffer other adverse consequences.

In addition, the Group may fail to develop products that are attractive to intermediaries or otherwise not succeed in developing relationships with intermediaries. Furthermore, the Group could lose the services of intermediaries with whom it does business, for example, as a result of market conditions causing their closure or intermediaries switching to the Group's competitors due to higher commissions or other incentives. The loss or deterioration of the Group's relationships with its intermediaries could have a material adverse effect on the Group's business, financial condition and results of operations.

Additionally, if market conditions were to change (for example as a result of: (i) regulatory changes impacting the pricing of mortgage loans originated through intermediaries, the manner in which mortgages are distributed through intermediaries or the way in which fees are charged; (ii) large banks, medium-sized banks and building societies challenging for market share in more specialist market segments; or (iii) a shift towards entirely automated lending and underwriting decisions and the use of artificial intelligence to

provide "robo-advice") and the Group is unable to keep pace with such changes, it is possible that the proportion of mortgage loans originated through intermediaries could decrease as borrowers move to favour direct applications to mortgage lenders, resulting in the Group potentially being at a competitive disadvantage for certain mortgages, which may have a material adverse effect on its financial condition, results of operations and/or prospects.

**The Group is subject to risks concerning customer and counterparty credit quality**

The Group has exposures to counterparties and obligors whose credit quality can have a significant adverse impact on its earnings and the value of the assets on its balance sheet. As part of the ordinary course of its operations, the Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures. This process, which is critical to the Group's results and financial condition, requires expert judgements, including forecasts of how changing macroeconomic conditions might impair the ability of customers to repay their loans. The Group may fail to adequately identify the relevant factors or accurately estimate the impact and/or magnitude of identified factors.

In addition, there is a risk that customers will be unable to meet their commitments as they fall due as a result of customer-specific circumstances, macroeconomic disruptions or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment. Similarly, deterioration in customer credit quality and a resulting increase in impairments could have a material adverse effect on the Group's business, financial condition and results of operations. In addition, a customer's failure to make payments or repayments under a loan for 90 days would mean that the loan would need to be reclassified as an exposure in default, thereby requiring a 150 per cent. risk weight. Such reclassifications could significantly increase the Group's regulatory capital requirements.

The Group routinely executes transactions with counterparties in the financial services industry, resulting in modest daily settlement amounts and credit exposure, which is largely offset by exchanging margin with counterparties. As a result, the Group is and will continue to be subject to a limited amount of risk relating to the deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Systemic risk in the banking system has become a point of considerable focus. The speed of systemic risk crystallising has become more acute with the increased digital adoption by customers for their banking services. Within the financial services industry, the default or failure of any one institution could lead to defaults or failure by other institutions. Concerns about, or a default or failure by, one institution could lead to significant deposit outflows and liquidity problems, losses or defaults by other institutions (such as the Group), which could escalate rapidly and result in a loss of confidence in other financial institutions or the financial system more generally. Even the perceived lack of creditworthiness of, or questions about, a financial institution (including the Group) or a counterparty may lead to significant deposit outflows, institution- or market-wide liquidity problems and losses or defaults by the Group or by other institutions. For instance, the Group experienced deposit outflows in the days leading up the announcement of the Transactions on 8 October 2023. This systemic risk could have a material adverse effect on the Group's ability to raise new funding, its ability to meet its obligations in respect of its existing funding and on its business, financial condition, results in operations and/or prospects.

**The Group's grant from the C&I Fund is subject to a number of conditions**

On 22 February 2019, the Group was awarded a £120 million grant from the Capability and Innovation Fund (the "**C&I Fund**"), a UK scheme designed as part of measures agreed between the Government and the European Commission to encourage competition in the SME banking market in the wake of the 2008 financial crisis. The Group returned £50 million of the grant in February 2020, leaving a remaining grant amount of £70 million from the C&I Fund. The C&I Fund is managed by the Banking Competition Remedies Limited (the "**BCR**"), an independent fund administrator to which the Group submitted a contractually binding business plan during its bid for a grant from the C&I Fund. This business plan, which was revised in connection with the updated grant amount of £70 million, included commitments to use the grant from the C&I Fund in specific ways, for example by defining geographies and timelines for 15 new store openings by 31 December 2025 (the operational costs pre- and post-launch will be partly funded by funds from the C&I Fund) and agreeing the parameters for new digital platforms and services that the Group will launch for SMEs (with these funded by the Group at a 2:1 ratio of its own funds to funds from the C&I Fund). The Group has opened four of these 15 new stores, has launched many of the new digital platforms and services for SMEs within the business plan, and has already met its commitment to fund at a 2:1 ratio of its own funds to funds from the C&I Fund.

Grants from the C&I Fund must be used in accordance with the business plan that the Group submitted to the BCR, including any changes to the business plan approved by the BCR since the grant was awarded. Breaches of the Group's commitments in its business plan could result in the Group needing to repay any grant funds outstanding, in addition to interest in the amount of 8 per cent. above the Bank of England rate (compounded quarterly).

While the Group intends to open the remaining 11 stores by the deadline of 31 December 2025, if for any reason the Group is required to repay part of the grant from the C&I Fund for any of the foregoing reasons or otherwise, its reputation, business, financial condition and results of operations could be adversely affected.

**Concentration of credit risk could increase the Group's potential for losses**

Substantially all of the Group's business relates to customers in the UK. Those customers are predominantly in London and the South East of England. 65 per cent. and 72 per cent. of the Group's retail mortgage portfolio and commercial term lending (excluding BBLS), respectively, was concentrated in Greater London and the South East of England as at 30 June 2023. If a disruption to the credit markets or an adverse change in economic or political conditions were to have a disproportionate effect on London and the South East of England, the Group could be exposed to greater potential losses than some of its competitors, which could have a material adverse effect on its business, financial condition and results of operations. In addition to geographic concentration risk, the Group could also be exposed to concentration risk if a specific industry sector were to be disproportionately impacted by economic or political conditions.

**The Group's risk management framework and policies may not be effective**

The Group faces a wide range of risks in its core business activities, including credit risk, capital risk, financial crime risk, operational risk, regulatory risk, conduct risk, strategic risk, model risk, liquidity and funding risk, market risk and legal risk. Effective risk management requires, among other things, access to complete sets of customer data and robust policies, processes and controls for the accurate identification and control of a large number of transactions and events. The Group's risk management policies, processes and controls have not in the past, and may not always in the future, operate as intended. The Group has a range of tools designed to identify, assess and manage the various risks that it faces, some of which are based on historical market behaviour. These methods may be inadequate for predicting future risk exposure, which may prove to be significantly greater than what is suggested by historical experience. Other methods that the Group utilises for risk management are based on the evaluation of markets, customers or other information that is publicly known or otherwise available to the Group. This information may not always be correct, updated or correctly evaluated.

It is difficult to predict changes in economic or market conditions and to anticipate the effects that these changes could have on the Group's financial performance and business operations, particularly in periods of unusual or extreme market conditions. If the Group's risk management policies, processes and controls are ineffective for any reason, this could have a material adverse effect on its business, financial condition and results of operations.

**The Group faces risks associated with errors and/or deficiencies in its models**

The Group relies on various internal models to make decisions throughout its business. However, models are approximations and are subject to random or systematic errors, which can result from, among others, the theoretical bases of models, the data and methods used in their construction, the economic conditions under which they are developed, and how they are used.

As the Group grows and increases its use of models, the associated risk will grow accordingly. In addition, if the Group's application with the PRA to switch from the standardised model to AIRB is eventually approved, the Group will have to ensure that its newly approved internal models are appropriate for its business at that time. While the Group seeks to manage its model risk through its risk management policies and procedures, there can be no guarantee that these policies and procedures will mitigate the risks arising from incorrect or misused models or incorrect business and strategic decisions based on model output. Model risk-related events can have a potentially significant impact on the management and execution of the Group's business, which in turn could have a material adverse effect on its business, financial condition and results of operations.

**The Group's insurance may not cover all possible losses**

The Group has taken out insurance against certain losses that it may suffer. However, the insurance coverage of the Group may not be adequate to cover all possible losses that it could suffer, and its insurance costs may increase. The Group will seek to maintain comprehensive insurance coverage at commercially reasonable rates. However, insurance policies do not cover all types of losses and liabilities and are subject to limits and excesses. There can be no assurance that the Group's insurance will be sufficient to cover the full extent of all losses or liabilities for which it is insured, and the Group cannot guarantee that it will be able to renew its current insurance policies, either on favourable terms or at all. If the Group is unable to obtain and maintain insurance on acceptable terms, its business, financial condition and results of operations could be adversely affected.

**The Group is exposed to operational risks in the event of a failure of its IT systems, and the Group relies on third parties for significant elements of its IT and other middle and back office processes**

The Group's business is dependent on processing a high volume of complex transactions across a diverse range of products and services accurately and efficiently. The Group also depends on technology to maintain its reputation for quickly and seamlessly processing customer requests, including account openings, payments and transfers. As a result, any weakness in the Group's IT systems, online or mobile banking platforms, reporting systems or operational processes could have an adverse effect on its ability to operate its business and meet customer needs.

While the Group has disaster recovery and business continuity contingency plans in place, an incident resulting in interruptions, delays, the loss or corruption of data or the cessation of systems could nonetheless occur. The Group also periodically upgrades its existing systems, and problems implementing these upgrades could lead to delays or loss of service to the Group's customers, as well as an interruption to its business, which could expose the Group to potential liability.

In addition, the Group outsources significant elements of its IT and network functions and some of its middle- and back-office processes, such as telephony infrastructure and data centre infrastructure, to third parties. The Group also relies on certain third-party vendors, such as Temenos Group AG ("**Temenos**") for its core banking engine software, Pepper Group Limited for its mortgage servicing, as well as mortgage servicing software, Microsoft for a variety of operational software and a series of third parties to support the infrastructure for its debit and credit cards. In addition, the Group relies on third parties for the provision of clearing services. If these third parties are unable to deliver their services to the Group in a timely manner and in accordance with the Group's specifications, the Group's ability to meet its customer service levels could be compromised.

The Group's systems are also vulnerable to damage or interruption from other factors beyond its control, such as floods, fires, power loss, telecommunications failures and other similar events. In addition, any breach in the security of the Group's systems could disrupt its business, result in the disclosure of confidential information and create significant financial and legal exposure, as well as damage to the Group's reputation.

The Group expects to continue to introduce new IT systems and upgrades, and there can be no guarantee it will be able to implement these changes efficiently or cost effectively, or that its current IT systems will continue to be sufficient for the Group's purposes or that they will have sufficient scalability to support the Group's controlled growth plan. Any actual or perceived inadequacies, weaknesses or failures in the Group's IT systems or processes could have a material adverse effect on its business, financial condition and results of operations.

In addition, IT system resilience is likely to be an area of greater regulatory scrutiny following the finalisation of the FCA's rules on operational resilience, as discussed further under "*Regulatory risks relating to the Group's business—The Group operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years*", below.

**The Group must comply with data protection and privacy laws and is subject to other data-related risks**

The Group's operations are subject to a number of laws relating to data privacy and protection, including the General Data Protection Regulation (EU 2016/679) and its transposition into UK laws by virtue of section 3 of the European Union (Withdrawal) Act 2018 and as amended by Schedule 1 to the Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations 2019 (SI 2019/419) (the "**GDPR**"), the UK Data Protection Act 2018 and the European Directive 2002/58/EC. The requirements of these laws affect the Group's ability to collect, process and use personal, employee and

other data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to the Group. Enforcement of data privacy legislation has become increasingly frequent and could result in the Group being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings (including criminal proceedings) initiated by the Information Commissioner's Office in the UK. In addition, any enquiries made, or proceedings initiated by, individuals or regulators may lead to negative publicity and potential liability for the Group. The Group must also comply with the Payment Card Industry Data Security Standards in respect of any data collected, transferred or processed in respect of any customer payments from branded payment cards. Non-compliance with these standards may lead to the Group facing fines (which, in the case of the GDPR, can be up to the higher of 4 per cent. of annual turnover or £17.5 million for serious breaches or 2 per cent. of annual turnover or £8.7 million for other specified infringements), increased card handling fees or withdrawal of payment processing services in the future.

In addition, the Group is subject to the risk that the creation, capture, security, privacy, sharing, retention, retrieval, disposal or deletion of data and records does not meet its business, legal or regulatory requirements, due to a lack of operational data management and control capabilities. Failure to ensure the integrity and security of business data, financial reporting and customer information could lead to adverse reputational, regulatory and customer impacts. While the Group has invested in improved data management controls and enhanced regulatory reporting processes, data risk remains a key area of focus.

The secure transmission of confidential information over the internet and the security of the Group's systems are essential to it maintaining customer confidence and ensuring compliance with data privacy legislation. If the Group or any of its third-party suppliers falls victim to a cyberattack, fails to transmit customer information and payment details online securely, or otherwise fails to protect customer privacy in online transactions, or if third parties obtain and/or reveal the Group's confidential information, or if the Group otherwise fails to manage its data appropriately, it could lose customers, potential customers could be deterred from using the Group's products and services, and the Group could be exposed to liability, and any of these consequences could have a material adverse effect on its business, financial condition and results of operations.

**The Group could suffer loss as a result of fraud, theft or cybercrime**

As a financial institution, the Group is subject to a heightened risk that it will be the target of criminal activity, including fraud, theft, or cybercrime. For example, the Group is exposed to potential losses due to breaches of its terms of business by its customers (e.g., through the use of a false identity to open an account), by customers engaging in fraudulent activities, including the improper use of legitimate customer accounts or as a result of unauthorised access to its information technology infrastructure. There is also a risk of sophisticated social engineering frauds across remote channels where fraudsters imitate the Group's colleagues, resulting in customers compromising their security credentials and inadvertently authorising push payment ("**APP**") frauds. In addition, losses arising from staff misconduct may result from, among other things, failure to document transactions properly or to obtain proper internal authorisation in an attempt to defraud the Group, or from physical theft at the Group's stores.

The Group's systems and/or those of third-party service providers on which it relies may be subject to attack by cybercriminals, including through phishing, malware or denial of service attacks. The Group has been the subject of such cyberattacks periodically and this risk will continue for the Group. Where an actual or perceived breach of the Group's network security occurs or personal data is stolen, it may expose the Group to adverse regulatory action, the loss of information, litigation and liability under data protection laws. Such a breach could also significantly disrupt the Group's operations. The Group believes that these risks are now elevated following the invasion of Ukraine by Russia and the anticipated retaliatory action by Russia against Western financial institutions following the imposition of sanctions by a number of national and supra-national entities.

Fraud, theft or cybercrime are difficult to prevent or detect, and the Group's internal policies to mitigate these risks may be inadequate or ineffective. The Group may not be able to recover the losses caused by these activities or events, and it could suffer reputational and financial harm (including being required to repay customer losses) as a result. Any of the foregoing actions could have a material adverse effect on its business, financial condition and results of operations.

**The Group is subject to risks associated with its hedging, treasury operations and investment securities portfolio, including potential negative fair value adjustments**

The Group faces risks relating to its hedging operations. The Group benefits from natural offsetting between certain assets and liabilities, which may be based on both contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, the Group engages in hedging activities to, for example, limit the potential adverse effect of interest rate fluctuations on its results of operations, to the extent that the assets and liabilities it originates do not create a natural offset to one another. However, the Group does not hedge all of its risk exposure and cannot guarantee that its hedging strategies will be successful due to factors such as behavioural risk, unforeseen volatility in interest rates or decreasing credit quality of hedge counterparties in times of market dislocation. If its hedging strategies are not effective, the Group may be required to record negative fair value adjustments. Losses from the fair value of financial assets could also have a material adverse effect on the Group's capital ratios.

Through its treasury operations, the Group holds liquid asset portfolios for its own account, exposing the Group to interest rate risk, basis risk and credit spread risk. Under volatile market conditions, the fair value of the Group's liquid asset portfolios could fall and cause the Group to record mark-to-market losses. In addition, as at 30 June 2023, the Group had investment securities of £5,315 million (31 December 2022, £5,914 million; 31 December 2021, £5,574 million; 31 December 2020, £3,413 million), comprising investment-grade investments in Government bonds, sovereign, supranational and agency bonds, covered bonds, retail mortgage-backed securities and other asset-backed securities. Despite the conservative nature of its investment securities portfolio, there can be no guarantee that the value of the Group's investment securities portfolio will not decrease. In a distressed economic or market environment, the fair value of certain of the Group's holdings and exposures may be volatile and more difficult to estimate because of market illiquidity. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant negative changes in the fair value of the Group's exposures and holdings.

Interest rate insensitive balances, for example, current accounts, form a significant part of the Group's funding. The Group assumes that these balances will have a behavioural maturity in excess of five years. However, if customer behaviour were to change significantly, these balances may become more volatile, which could have a material adverse effect on the revenue generated by these balances.

Any inability of the Group to effectively manage its hedging, treasury operations or investment securities could have a material adverse effect on its business, financial condition, and results of operations.

**The Group could fail to attract or retain senior management or other key colleagues**

The Group's success depends on the continued service and performance of its key colleagues, particularly its senior management, and its ability to attract, retain and develop high-calibre talent appropriate for the increasing scale and complexity of its business. The Group may not succeed in attracting and retaining key personnel if they do not identify or engage with the Group's brand and values, or due to reputational or regulatory issues. In addition, while the Group may seek to augment its senior management team with personnel possessing skills and experience from larger financial institutions, it may be unable to attract qualified candidates. Furthermore, external factors such as macroeconomic conditions, the developing and increasingly rigorous regulatory environment in which the Group operates, changes to work permit and visa rules, or negative media attention on the Group or the financial services industry more broadly could adversely impact the Group's ability to attract and retain staff. Moreover, from 5 July 2023, Metro Bank and the Company are subject to formulaic provisions set out in the PRA Rulebook which:

- restrict (to a Maximum Distributable Amount ("**MDA**")) their ability to make or create an obligation to pay certain payments, including dividends on ordinary shares, and payments of variable remuneration or discretionary pension benefits if the obligation to pay was created at a time when the Company or Metro Bank, as the case may be, did not meet the Combined Buffer Requirement; and
- in effect, make any such payments subject to the PRA's approval (the "**MDA restrictions**").

As a result, the Group is currently subject to, and, if Shareholders do not vote in favour of the Shareholder Resolutions and the Transactions therefore fail to close (assuming all other conditions precedent are satisfied), the Group will continue to be subject to, among other things, limitations on its ability to pay variable remuneration to senior managers to the extent the entitlement to such remuneration arose after the MDA restrictions began to apply after 5 July 2023. For further details on the MDA regime, see "—*The Company (on a consolidated basis) and Metro Bank (on a solo basis) are subject to capital conservation rules which, if not complied with as a result of the Transactions, could result in the Group being placed into resolution by the Bank of England*".

Under the senior managers regime (introduced in the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**")) individuals carrying out positions of significant influence at banks are individually responsible for defined areas of the business and can be held to account by the PRA and FCA on that basis. The Banking Reform Act also introduced a new criminal offence applicable to senior managers of reckless mismanagement resulting in a bank failure (punishable by a maximum of seven years' imprisonment). These types of legislation, regulation and rules (including the PRA Remuneration Code) may reduce the willingness of potential directors and senior colleagues to provide their services to the Group.

Any failure to attract and retain appropriately qualified colleagues, including senior management, for the scale and complexity of the Group's business could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Company (on a consolidated basis) and Metro Bank (on a solo basis) are subject to capital conservation rules which, if not complied with as a result of the Transactions, could ultimately result in the Group being placed into resolution by the Bank of England**

In addition to its Total Capital Requirement and MREL requirement, each of Metro Bank and the Company is subject to the Combined Buffer Requirement, which currently comprises a capital conservation buffer of 2.5 per cent. of RWAs and (since 5 July 2023) a countercyclical buffer of 2 per cent. of RWAs. Partly due to the increase in the countercyclical buffer, the Group's capital position has changed and the Combined Buffer Requirement is not currently met (on absolute terms) on a solo basis by the CET1 resources of Metro Bank or on a consolidated basis by the CET1 resources of the Company. As a result, since 5 July 2023, Metro Bank and the Company have been subject to the MDA restrictions (as defined in detail above) and, absent the successful completion of the Transactions, will continue to be so.

Firms or groups which do not meet their Combined Buffer Requirement in full are required to submit to the PRA a capital conservation plan within five business days from identifying that the MDA restrictions apply. Such capital conservation plans must meet specific requirements under the PRA rulebook, including that they need to contain the firm's plan to increase capital resources to restore compliance with the Combined Buffer Requirement and the timeframe therefor. Originally, Metro Bank submitted to the PRA its MDA calculations alongside the Group's 2023 budget document and Long-Term Plan as part of a discussion around capital conservation planning. Following discussions with the PRA and the Bank of England, these submissions formed part of the capital restoration planning associated with the completion of the Transactions. In particular, the successful completion of the Transactions will result in the Company (on a consolidated basis) and Metro Bank (on a solo basis) meeting the minimum capital requirement, the Combined Buffer Requirement and the applicable MREL requirements.

However, if Shareholders do not vote in favour of the Shareholder Resolutions and the Transactions therefore fail to close (assuming all other conditions precedent are satisfied), the Group will be unable to raise capital in an amount that is sufficient to restore compliance with the Combined Buffer Requirement, and will suffer a loss of market confidence, any of which could result in a potential determination by the PRA that the threshold conditions for continuous authorisation of Metro Bank as a credit institution are not met (which might lead to alterations or withdrawal of its licences) or, more likely, other more immediate effects, including, for example, being placed into resolution. For a more detailed overview of the potential consequences of a failure of the Transactions to proceed, see "*—Risks relating to the Group if the Transactions do not successfully close—If the Transactions do not successfully close, the Group could face a number of adverse consequences, with the most probably outcome being placed into resolution. Resolution action in the form of PoNV powers or bail-in would lead to the cancellation, transfer or dilution of the Shares, while a sale of the Group to a private purchaser could have a similar effect if the sale was for no or minimal consideration*".

**The Group requires the lease or purchase of suitable premises for its stores and is therefore exposed to risks relating to the continued opening and operating of commercial real estate**

The Group's business model involves the opening and operating of stores, which are typically operated on long-term leases or through purchasing the freehold of premises in prime locations. As at 30 June 2023, the Group had 76 open stores, of which it owned the freehold or long-leasehold on 30. Property, plant and equipment, primarily in the form of stores and office spaces, constitutes a significant investment for the Group, making up £733 million of the Group's assets as at 30 June 2023 (£748 million as at 31 December 2022).

The Group's controlled growth plan includes the opening of new stores. In some cases, competition for these types of properties can be significant, and the Group cannot be certain it will be able to secure its

premises of choice or necessary planning approvals. The Group's grant from the C&I Fund requires it to open 11 further stores in the North of England by 31 December 2025. Any future inability to obtain additional suitable leases or purchases for its properties, including in accordance with its grant from the C&I Fund, could have a material adverse effect on the success of the Group's controlled growth strategy.

As all of the Group's current stores are located in the UK, it is exposed to ongoing risks in the UK real estate market, which can be impacted by UK macroeconomic conditions. In addition, the COVID-19 pandemic may have accelerated the transition to online consumption of services, which may result in consumers relying less on physical stores. As property values are dependent, among other things, on current market rental values, occupancy levels and market demand for space, there is a risk that a deterioration in the macroeconomic environment or a shift away from physical stores could negatively impact property rentals, leading to the Group paying above-market rents on its existing stores. The Group has limited lease breaks on its existing stores and typical lease lengths of 25 years, which limits the ability of the Group to renegotiate lease terms to reduce its rental commitments, or to negotiate other incentives. As the Group accounts for its properties using the cost model, the above factors do not impact the valuation of stores in the Group's financial statements, although this could mean that the fair value of the Group's properties differs from their reported valuation.

The length of property commitments also means the Group risks not being able to accurately respond to consumer trends. Retail locations, where the Group's stores are typically located, can be subject to rapid and sometimes unpredictable changes in consumer sentiment or preferences, as well as other factors (for example due to the loss of a high-profile retailer) which could see the Group left with properties in the wrong locations or which have lost their appeal and relevance for modern consumers, thereby limiting these stores' ongoing prospects.

The Group periodically closes office or store locations, and while it has been able to dispose of these properties to date, there can be no guarantee that it will be able to dispose of properties in the future, which could lead to onerous costs. Additionally, the market for real estate investments is relatively illiquid and may result in low disposal prices or an inability to sell certain properties in a timely manner if needed. While the Group is generally a long-term owner/lessee of its properties, there may not be ready buyers with available liquidity or financing or who are willing to pay fair value at the time if the Group desires to sell a property. In the case of leasehold properties, consents may often be required from owners of the freehold interest to dispose of the property or lease. As such, there can be no assurance that any such property will be sold or that the price obtained from such a sale would cover the book value of the property sold. Any of these circumstances could have an adverse effect on the Group's business, financial condition and results of operations.

**The Group does not control certain internet domain names similar to its own**

The Group owns and uses the domain "www.metrobankonline.co.uk". The Group purchased the registered trademark "Metrobank" from an individual who also owns the internet domain "www.metrobank.co.uk" (which was not acquired by the Group). When the Group bought the registered trademark, it entered into an agreement that provided the Group would not attempt to use its rights in the registered trademark to gain control of the internet domain. As a result, the Group cannot control who might purchase the domain or the purpose for which it might be used. In addition, the domain "www.metrobank.com" belongs to a third party. The Group's inability to control these domains, or others with similar names to that of its own, could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

**External events over which the Group has no control could have a material adverse effect on the Group's business, financial condition and results of operations**

Catastrophic events, terrorist acts, acts of war or hostilities, pandemic diseases (including COVID-19), geopolitical, climate-related or other unpredictable events, and responses to those acts or events, could create economic and political uncertainties which could have an adverse effect on economic, political and social conditions in the UK and globally, and could interrupt the Group's business and result in substantial losses. These acts or events, and any resulting losses, are difficult to predict and could adversely affect borrowers' credit quality, as well as property values, financial assets or the Group's key employees.

Unforeseen events can also lead to increased operating costs, such as costs to repair the Group's stores, higher insurance premiums or the need for additional back-up systems. If the Group's business continuity plans do not address these events or cannot be implemented, either effectively or at all, these costs could increase. Insurance coverage for certain risks may also be unavailable, which would increase the Group's

risk of losses. If the Group is unable to manage these risks effectively, its business, financial condition and results of operations could be adversely affected.

**The Group is subject to risks resulting from the UK's withdrawal from the EU ("Brexit")**

The UK left the EU on 31 January 2020, and the transition period ended on 31 December 2020. As a result, the Treaty on the European Union and the Treaty on the Functioning of the European Union have ceased to apply to the UK. The UK is also no longer part of the EEA.

The European Union (Withdrawal) Act 2018 and secondary legislation made under powers provided in that legislation ensured that there was a functioning statute book in the UK. However, the UK is in the process of recasting onshored EU legislation into PRA and FCA rules and intends to complete UK implementation of the remaining Basel III reforms. The regulatory regimes for EU and UK financial services may therefore change further and temporary permissions and equivalence decisions may expire and not be replaced, which would result in further adjustments to the UK regulatory landscape. This could materially change the legal and regulatory framework applicable to the Group's operations, including in relation to its regulatory capital requirements. A Financial Services and Markets Bill was introduced to Parliament on 20 July 2022, which reflects the outcome of a number of HM Treasury initiatives, primarily its Future Regulatory Framework Review, which was intended to determine what adaptations to UK financial services regulation would be necessary following Brexit. The bill received Royal Assent as the Financial Services and Markets Act 2023 on 29 June 2023, although many of the key provisions will not come into force until such time as is to be determined by HM Treasury. The Financial Services and Markets Act 2023 enables the revocation of retained EU law relating to financial services (from dates to be determined by HM Treasury) and enables HM Treasury and financial services regulators to replace retained EU law with rules designed specifically for UK markets. On 9 December 2022, the Government released a package of proposed reforms to financial services regulation referred to as the "Edinburgh Reforms". The proposed reforms are wide ranging, featuring thirty separate announcements and including (without limitation) proposed amendments to the ring-fencing and non-performing exposure regimes. HM Treasury has also proposed to use post-Brexit legislative flexibility to modernise UK financial services legislation by relaxing certain EU-derived provisions of prudential regulation. Further details of the reforms and the proposed timing of their implementation are not known. Depending on the specific nature of any new rules that are put in place and how they are enforced, these, or any other Brexit-related factors, could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is exposed to risks related to climate change as well as other environmental, social and governance-related risks**

The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose an increasing threat to the Group's business. Climate change risks include physical risks resulting from changing climate and weather patterns and extreme weather-related events, as well as transition risks resulting from the process of adjustment towards a lower carbon, climate-resilient or environmentally sustainable economy (including policy changes, legislative changes, technological progress and behavioural changes). Both physical risks and transition risks can have significant financial consequences, which can affect financial institutions such as the Group, for example through increased loan defaults or investment losses, higher insurance settlements or disruptions to operations.

The Government has introduced, and is expected to continue to introduce, increasingly stringent rules, regulations and policies designed to achieve targeted outcomes with respect to environmental, social and governance ("**ESG**") issues. These include the requirement for companies listed on the premium listing segment of the London Stock Exchange, such as the Group, to report publicly in accordance with the Task Force on Climate-related Financial Disclosures. These regulations, rules and policies, as well as expectations of customers and other stakeholders, have and will continue to increase compliance costs for the Group, and could increase asset impairments and result in regulatory fines, litigation and/or reputational damage if the Group fails to comply with such requirements and/or is unable to implement required reforms in a timely fashion. A failure to identify and adapt the Group's business to meet new rules or evolving expectations, or any perception that the Group is under-performing relative to its peers or that it is failing to meet its ESG objectives, could also result in investors divesting their shares in the Group or damage the Group's brand and result in a decline in new customers or a loss of existing customers, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is subject to changes in taxation laws**

The Group's activities are conducted in the UK and, consequently, it is subject to a range of UK taxes and surcharges. Revisions to tax legislation or to its interpretation could result in increased tax rates (including in relation to UK corporation tax rates or the introduction of a windfall tax in the UK) or additional taxes. In addition, the Group is subject to periodic tax audits, which could result in additional tax assessments relating to past periods.

Adverse changes in tax laws, and any other reform amendment to, or changes in the interpretation or enforcement of, applicable tax legislation (including in relation to the recognition of deferred tax assets) that negatively impact the Group or its customers could have a material adverse effect on the Group's business, financial condition and results of operations.

**Regulatory risks relating to the Group's business**

**The Group operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years**

The Group, in common with other financial services firms, has in recent years faced increased levels of scrutiny from regulators in respect of the conduct of its business. The Group's principal regulators are the FCA (which is responsible for conduct regulation) and the PRA (which is responsible for prudential regulation).

The FCA, the Group's conduct regulator, has highlighted priorities such as making payments safe and accessible (including continued access to cash and financial inclusion), fair treatment for vulnerable customers, promoting competition, and innovation and operational resilience as key for the retail banking sector in its recent annual business plans. In addition, the FCA has undertaken a series of thematic reviews, including a review launched in April 2017 into retail banking business models. The FCA initiated three strands of work following this review: on-going monitoring of retail banking business models; analysis to understand the value chain in new payment services business models; and exploratory work to understand certain aspects of SME banking. In a January 2022 update to this review, the FCA noted that there remains significant room for further interventions to increase competition and innovation in retail banking, including sharing consumer data via "Open Banking" or "Open Finance". Any further action that the FCA may take in relation to these, or recommendations it may make in relation to any of its other thematic reviews, could impact the Group's business.

The FCA has also indicated it is looking to shift towards a more assertive, outcomes-focused regulatory regime for retail customers. The FCA published final rules in July 2022 on the introduction of a new consumer duty on regulated firms (the "**Consumer Duty**"), which aims to set a higher level of consumer protection in retail financial markets. In particular, the Consumer Duty introduces (i) a new 'Consumer Principle' that requires firms to act to deliver good outcomes for retail customers; (ii) cross-cutting rules requiring firms to act in good faith, avoid causing foreseeable harm, and enable and support customers to pursue their financial objectives; and (iii) four outcomes requiring firms to ensure consumers receive communications they can understand, products and services that meet their needs and offer fair value, and the support they need.

Since 31 July 2023, the Consumer Duty applies for new and existing products and will (as at 31 July 2024) apply for closed-book products (products that are no longer marketed or distributed to retail customers nor open to renewal). The Group is implementing its plan in connection with the Consumer Duty, although the Group's continued implementation of the Consumer Duty, evolving interpretation of the Consumer Duty by the FCA and any future action that the FCA may take in enforcing the Consumer Duty could adversely impact the Group's business.

The FCA is also responsible for oversight of regulated consumer credit activities, providing it with broad regulatory authority over a wide range of aspects of the Group's lending business, such as the format and content of its customer communications and its terms of business. The FCA may require firms to operate a consumer redress scheme, under which the firm is required to make redress to customers where it has failed to carry on its activities in accordance with its legal or regulatory obligations. The FCA also has temporary product intervention powers, which enable it to restrict certain products, product features or their promotion for up to 12 months without consultation. Certain consumer bodies have the power to refer so-called "super-complaints" to the FCA for further investigation as well.

Most banking customers are also entitled to refer complaints to the Financial Ombudsman Service (the "**FOS**"), and recent years have seen an increase both in the number of cases referred to the FOS and general public awareness regarding the ability to challenge firms. As at the Reference Date, the Group had

145 fraud cases open at the FOS, with an associated aggregate claimed value of £8.2 million. Although the Group believes that its ultimate potential liability in respect of these cases will be substantially lower, there can be no assurance as to the result of these cases. There has also been an increase in sophisticated social engineering frauds across remote channels in circumstances where fraudsters have imitated bank colleagues, resulting in customers compromising their security credentials, and authorised push payment ("**APP**") frauds where customers are scammed by fraudsters to pay funds over to them.

More recently, through its Contingent Reimbursement Model Code (the "**CRM Code**"), the FOS has increasingly found in favour of customers and asked banks to provide refunds irrespective of the circumstances. While the Group is working on a number of initiatives which will help reduce these types of social engineering and APP frauds, there is a risk that, because the FOS's interpretation of social engineering or APP cases is that they do not constitute gross negligence, for the purposes of the CRM Code, by customers falling victim to such frauds, higher numbers of customers will challenge the Group's determination of liability in such cases, giving rise to potentially increased losses. In addition, the UK's Payment Systems Regulator is in the process of introducing new mandatory reimbursement rules for victims of APP frauds. These new rules will require payment firms to reimburse in-scope customers who fall victim to APP fraud in most cases, with the sending and receiving payment firms equally sharing the reimbursement cost. The Payment Systems Regulator published a consultation on the new reimbursement requirement on 5 October 2023, which proposes that the requirement should come into effect in October 2024. Should these new rules go into effect, it could result in increased customer reimbursement costs for the Group.

The FCA remains focused on the retail mortgage lending market. On 2 August 2022, the FCA, noting the decline in borrowers switching mortgages when they could save money by doing so, released a statement instructing lenders to support customers to switch to a less costly option where that is available. The FCA concluded that the case for further regulatory intervention is not currently justified but that it would continue to monitor the market particularly given the impact on borrowers of increasing mortgage rates and the rising cost of living and consider what further steps it may need to take. In addition, on 30 June 2023, to provide relief for borrowers dealing with higher interest rates, and noting the potential for a rise in borrowers experiencing financial difficulty, the FCA changed its rules to permit lenders to offer switches to interest-only payments for six months and extensions to mortgage terms to reduce monthly repayments, with the option to switch back within six months, without an affordability check. Any regulatory intervention to support these, or other regulatory objectives, could impact the Group's mortgage lending business.

Regulators have also recently increased their scrutiny of the operational resilience in financial services firms through rules and guidance developed by the FCA, the PRA and the Bank of England. On 10 January 2023, the PRA wrote to deposit-taking firms about its priorities for 2023 and highlighted its continued focus on operational risk and resilience. On 29 March 2023, the PRA shared its findings from the Bank of England's 2022 cyber stress test, highlighting both individual action by firms and collective work to improve the financial sector's recovery from cyberattacks. Under FCA rules which came into force on 31 March 2022, banks (and other firms) must as soon as practicable after 31 March 2022 and by no later than 31 March 2025 have performed mapping and testing to remain with impact tolerances for important business services and made the necessary investments to enable them to operate consistently within their impact tolerance. The Group is engaged in this process. The FCA and PRA have also set out expectations in a supervisory statement in March 2021 on how firms should comply with regulatory requirements and expectations relating to outsourcing and third-party risk management, including in relation to critical third-party service providers.

The PRA and FCA can apply a wide range of sanctions to firms such as the Group (and individuals working for these firms) if they are found to be operating in breach of their regulations, or in a manner deemed to pose a significant risk to their statutory obligations, including public or private censure, fines, regulatory proceedings and, in extreme cases, suspension or withdrawal of authorisation to operate particular parts of their business or prosecution. Investigating and dealing with proceedings, making redress, and the cost of any regulatory sanctions may involve significant expense, which could adversely affect the Group's ability to undertake other discretionary projects. The use of product intervention powers by the FCA may restrict the Group's operations and its ability to offer new products to its customers. Any adverse publicity relating to regulatory action could undermine customer confidence in the Group and reduce demand for its products and services, which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is subject to prudential regulatory capital and liquidity requirements (applying both at the level of Metro Bank (on a solo basis) and at the level of the Company (on a consolidated basis))**

The prudential regulatory capital and liquidity requirements applicable to banks have increased significantly over the last decade, largely in response to the 2008 financial crisis but also as a result of continuing work undertaken by regulatory bodies in the financial sector subject to certain global and national mandates. The prudential requirements are likely to increase further in the short term, not least in connection with the implementation in the UK of the final Basel III reforms contained in the Basel Committee's December 2017 publication "Basel III – Finalising post-crisis reforms" ("**Basel 3.1**") which, among other things, aims to reduce the variability in banks' risk weighted assets calculations by restricting the use of the internal model approaches for certain exposure types, as well as enhancing the sensitivity of the standardised approaches to credit risk and operational risk. One of the key challenges is the introduction of an output floor to limit the regulatory capital benefit of using internal models compared to the standardised approaches. On 30 November 2022, the PRA published CP16/22 "Implementation of the Basel 3.1 standards", which sets out the PRA's proposed rules and expectations with respect to implementing the Basel 3.1 standards in the UK– including, but not limited to: (i) revisions to the standardised approach to credit risk in particular in respect of the treatment of real estate lending which will affect the Company's classification and treatment thereof, (ii) revisions to the internal ratings based approach to credit risk (which are not relevant to the Group unless and until AIRB is obtained) and (iii) revisions to the recognition of credit risk mitigation techniques. In addition, the proposals also revised certain areas of the Basel III standards already implemented in the UK and would have consequential impacts on the UK implementation of the leverage ratio (noting that the Group is not subject to the Pillar 1 leverage ratio requirement), and elements of the large exposures framework. The rules are expected to be implemented from 1 July 2025 with additional phase-in provisions for the output floor (the original implementation date of 1 January 2025 was further extended to 1 July 2025).

The prudential regulatory capital and liquidity requirements to which Metro Bank is subject (on a solo basis) and to which the Group is subject (on a consolidated basis) are primarily set out in UK CRR, the PRA Rulebook and relevant supervisory statements (together referred to for ease as "**CRD**").

Although many of the measures in EU CRR/CRD IV originally took effect in the UK from 1 January 2014, the prudential regulatory regime was subsequently amended a number of times (including as a result of "onshoring" in the context of Brexit or as a result of the implementation of changes to the underlying Basel III standards (for more detail, see Part III of this document). For example, when the UK implemented the remaining Basel III standards, most key revisions were implemented with effect from 1 January 2022 (approximately six months after the corresponding measures were implemented in the EU), and the binding net stable funding ratio ("**NSFR**"), only came into effect in the UK on 1 January 2022, by way of amendments to the UK CRR, and the addition of a new liquidity chapter in the PRA Rulebook. All liquidity rules have now been restated in the PRA Rulebook.

The Basel 3.1 standards will also substantially amend UK CRR. The proposals in CP16/22 will primarily affect the Group's capital requirements in respect of credit risk including in relation to risk weights for mortgage loans under the standardised approach, as well as impacting other portfolios such as those in respect of SMEs. The Basel 3.1 standards will reduce the benefits of using the AIRB approach as compared to the standardised approach and will disapply the use of AIRB for certain exposure classes as a whole. For more detail on forthcoming changes to the UK and EU bank regulatory regimes and the timings for those changes, see Part III of this document.

In addition, there may be changes to the way in which the PRA interprets and applies capital and other prudential requirements to UK banks, as well as further changes to those prudential requirements themselves. These changes, either individually or in aggregate, may lead to further unexpected enhanced prudential requirements in relation to the Group's capital, leverage, liquidity and funding ratios, and could require the Group to raise capital, further loss-absorbing capacity, and/or increase liquidity to meet such changes. There are also a number of initiatives underway which, when implemented, could also affect prudential capital and liquidity requirements in the future, including the proposals for the UK implementation of Basel 3.1 discussed above, the PRA's current planning to revise the liquidity rules or in the longer term the incorporation of ESG risks in the prudential regulatory regime.

Metro Bank (solo basis) and the Company (consolidated basis) calculate regulatory capital requirements using the standardised approach to credit risk (i.e., application of the formulaic rules in the UK CRR, the PRA Rulebook and the PRA guidance) and following the supervisory review and evaluation process ("**SREP**") and an assessment of the risk profile of Metro Bank and the Group and regulatory requirements in relation to capital. The Group may experience a depletion of its capital resources through increased costs

or liabilities incurred, or a recalculation based on adjustments to its credit risk calculations, as a result of the crystallisation of any of the other risks described elsewhere in these *Risk Factors*. In addition, firms might set internal target capital ratios that are above minimum regulatory requirements, for example to deal with market stress or to make sure that their ratios are similar to those of peer banks of the same size.

**The Group is subject to MREL requirements (applying both at the level of Metro Bank (on a solo basis) and at the level of the Company (on a consolidated basis))**

The Company's current (consolidated) MREL requirement (excluding disclosable buffers) is 16.72 per cent. of RWAs (resulting in a 21.22 per cent. requirement comprising MREL and the Group's disclosable buffers). Metro Bank, a material subsidiary of the Company, is also subject to a (solo) MREL requirement. Metro Bank is required to meet an internal MREL requirement equal to 16.72 per cent. of RWAs.

Items eligible for inclusion in MREL include an institution's and/or group's, as the case may be, own funds, and more senior eligible liabilities instruments in the form of debt instruments. For further information on the Company's (consolidated) MREL resources and Metro Bank's (solo) MREL resources, see Part III "*Supervision and Regulation—UK Regulation—MREL requirement—the Company's (consolidated) and Metro Bank's (solo) own funds and other MREL resources*".

The Company is the resolution entity for the single point of entry bail-in strategy applicable to the Group and will issue own funds and other external MREL to the market on a structurally subordinated basis moving forwards. An increase in the amount of own funds or eligible liabilities required to be issued by the Company may increase compliance costs, delay, limit or restrict the execution of the Group's strategy and may have a material adverse effect on the Group's capital structure, business, financial condition and results of operations. Further, the cost of funding for external MREL debt issuances may be higher than the cost of funding which the Group might otherwise have incurred if it were not subject to the relevant MREL requirements, and as such the Group's profitability and return on capital could be adversely affected.

**The Group must comply with anti-money laundering, financial crime, anti-bribery and sanctions regulations, and any failure to do so could have a material adverse effect on the Group**

The Group is subject to laws regarding money laundering and the financing of terrorism, as well as laws that prohibit the Group, its staff or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business, including the UK Bribery Act 2010. Monitoring compliance with anti-money laundering and anti-bribery rules, as well as with financial sanctions programmes, creates a significant financial and operational burden for banks and other financial institutions and requires significant technical capabilities. In recent years, enforcement of these laws and regulations against financial institutions has become more aggressive, resulting in several landmark fines against UK financial institutions. The FCA, in particular, has highlighted anti-money laundering and the prevention of financial crime as priorities in its business plan. Furthermore, following the entry into force of the EU AML Directive and Transfers of Funds Regulation on 25 June 2015, new regulations came into force in the UK on 26 June 2017 (and were further amended on 10 January 2020), which impacted the scope of the regulatory requirements the Group must comply with. Moreover, the UK, the EU, United States and numerous other jurisdictions have introduced sweeping sanctions against Russia and Belarus following the invasion of Ukraine, and many of these sanctions involve the banking and financial services sectors.

The Group's only potentially material contingent liability with respect to these matters is the FCA's enquiries regarding the Group's financial crime systems and controls. On 6 June 2023, the Group received confirmation of its position on the FCA's watchlist for financial crime compliance, primarily in relation to the ongoing management of financial crime risk within the Group's back book as well as specific concerns over the effectiveness of financial crime controls over the Group's online account provisions. The Group continues to engage, update and co-operate fully with the FCA on these matters and the FCA's enquiries remain ongoing. The outcome and timing of these matters is inherently uncertain and, based on the facts currently known, it is not possible to predict the outcome or reliably estimate any financial impact. As such, as at 30 June 2023, no provision has been made within the Financial Statements.

While the Group monitors its regulatory environment, it is not always possible to predict the nature, scope or effect of future regulatory requirements to which it might be subject and, in particular, the manner in which existing laws might be administered, interpreted or enforced. In particular, the sanctions applicable to individuals and entities in Russia and Belarus continue to be updated frequently and there is no guarantee that sanctions will not be expanded further. Compliance with these requirements is also in part dependent upon the effective operation of the Group's data collection policies, systems and controls, which have not in

the past and may not always in the future operate as intended. Although the Group believes that its current policies, processes and procedures are adequate and designed to support its ability to comply with applicable anti-money laundering, anti-bribery, sanctions and other related rules and regulations, these policies, processes and procedures may not always do so and, therefore, cannot eliminate the risk of actions by third parties or the Group's colleagues that result in money laundering, sanctions breaches, bribery or other activities, as well as violations of applicable regulations, for which the Group might be held responsible. Any of these events may have severe consequences, including criminal sanctions, fines, restrictions on its business operations and reputational damage, which could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is subject to rules on deposit guarantee schemes**

In Europe, the EU Deposit Guarantee Scheme Directive ("**EU DGSD**") required Member States to introduce at least one deposit guarantee scheme by 1 July 1995. The EU DGSD was reviewed, and a new legislative proposal was published by the European Commission in July 2010 to recast and replace the EU DGSD. The main aims of the recast EU DGSD were to restrict the definition of "deposit", to exclude deposits made by certain financial institutions and certain public authorities, to reduce time limits for payments of verified claims to depositors and to make provisions on how deposit guarantee schemes should be funded. In addition, the recast EU DGSD allowed for temporary increases in the coverage level in relation to deposits arising from certain events, such as the sale of a private residential property. The rules on depositor protection rules and supervisory statements took effect in the UK from 3 July 2015 in the form of the FSCS protection regime in the PRA Rulebook discussed in Part III and eligible depositors include individuals and corporates of a non-financial nature.

It is possible, as a result of the UK implementation, that future FSCS levies on the Group may differ from those at present, and such reforms could result in the Group incurring additional costs and liabilities. In particular, now that the UK has left the EU, the level of FSCS protection set by the PRA may depart from the EU DGSD coverage levels. The Group has updated its IT systems to comply with the PRA's system requirements, including requirements on firms to have systems that will allow accounts that do not contain eligible deposits to be frozen at the point of resolution while leaving marked deposits accessible and will be able to separate FSCS-covered and uncovered balances.

On 18 April 2023, the EU Commission proposed a number of changes to the EU DGSD (including expanding the types of protected deposits). The UK has not yet published such extensive proposals in respect of the FSCS regime, but the Bank of England did publish on the same day more limited proposals aiming to create an effective regime for the payment of the FSCS compensation to depositors (by way of bank transfer) in a timely manner and assist covered depositors with opening accounts with alternative banks. A consultation paper with further proposed amendments on FSCS was published on 11 October 2023.

**The Company is a parent financial holding company and therefore holders of New Shares are structurally subordinated**

The New Shares are obligations of the Company only. The Company is a holding company with no revenue generating operations of its own and conducts all of its operations through its subsidiaries (in particular, Metro Bank). Accordingly, in addition to being subordinated to the claims of more senior liabilities of the Company, the claims Shareholders have under the New Shares are structurally subordinated to the claims of all creditors of the Company's subsidiaries (including the creditors of Metro Bank). As at the date of this document, and subject to implementation of the written resolutions passed in respect of the Existing Tier 2 Notes and the Existing MREL Notes, the Company currently holds internal MREL debt instruments issued by Metro Bank (that were issued on back to back terms with the Existing MREL Notes in 2023) which were issued by Metro Bank in a form which is intended to count towards Metro Bank's (solo) MREL resources. Following completion of the Transactions, it is expected that Metro Bank will issue CET1 (on back to back terms with the New Shares) and internal issuances of own funds and other MREL debt instruments (on back to back terms with the issuance of the New Tier 2 Notes and the issuance of the New MREL Notes), in each case issued to the Company. The payment of dividends or returns of cash by other means to the Company by its subsidiaries will, in turn, be subject to restrictions, including the existence of sufficient CET1 resources in those subsidiaries and compliance with applicable regulatory requirements including the MDA restrictions. See "*—The Company (on a consolidated basis) and Metro Bank (on a solo basis) are subject to capital conservation rules which, if not complied with as a result of the Transactions, could result in the Group being placed into resolution by the Bank of England*".

The Company's right to receive proceeds from the liquidation of a subsidiary will be subject to the prior claims of such subsidiary's creditors. Accordingly, if Metro Bank or another of the Company's subsidiaries were to be wound up, liquidated or dissolved, the Company would only recover any amounts (directly, or indirectly through its holdings of other subsidiaries) in the liquidation of that subsidiary in respect of (a) any debts of such subsidiary where the Company (directly or indirectly) is the creditor, but subject to the claims on the assets of such subsidiary of all other creditors ranking in priority to, or *pari passu* with, the Company (or another of its subsidiaries), and (b) its direct or indirect holding of ordinary shares in such subsidiary, if and to the extent that any surplus assets remain following payment in full of the claims of all creditors of that subsidiary.

As well as the risk of losses in the event of a subsidiary's insolvency, the Company may suffer losses if any of its loans to, or investments in, its subsidiaries are subject to statutory write-down and conversion powers or if the subsidiary is otherwise subject to resolution proceedings. Loans to, or instruments subscribed from, Metro Bank may contain contractual mechanisms that, upon the occurrence of a trigger related to the prudential or financial condition of the Group or Metro Bank, would result in a write-down or conversion into equity of such loans, or instruments, or the UK resolution authorities may elect to write down or convert such loans, or instruments, using resolution or capital write-down and conversion powers under the Banking Act irrespective of any such contractual provisions in certain circumstances.

**Risks relating to the Shares**

**The value of the Shares may fluctuate**

The market price of the Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Shares (or securities similar to them), including, in particular, in response to various facts and events, including any regulatory changes affecting the Group's operations, variations in the Group's operating results and/or business developments of the Group and/or its competitors.

In addition, stock markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for securities and which may be unrelated to the Group's operating performance or prospects, such as the operating and share price performance of other companies that investors may consider comparable to the Group, speculation about the Group in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes in other countries, whether or not the Group derives significant revenue therefrom. Furthermore, the Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Shares.

**The Company may not have any distributable profits or reserves to enable it to pay dividends to Shareholders. Shareholders may therefore not receive a return on their investment, or may receive a negative return and lose some or all of their capital**

The Company's results of operations and financial condition depend on the trading performance of the members of the Group. There can be no assurance that the Company will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the directors then appointed and will depend on, among other things, applicable law and regulation, the Company's and the Group's financial performance and position (including the availability of distributable profits and reserves and cash available or able to be made available in the hands of the Company for this purpose), regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the directors then appointed deem significant from time to time. See "*—Regulatory risks relating to the Group's business—The Group is subject to MREL requirement*").

As a holding company, other than through the implementation of the corporate actions as described below, the Company's ability to pay dividends will depend on the level of dividends and other distributions received from its operating subsidiaries and companies in which it has an investment. The payment of dividends or return of cash by other means to the Company by its subsidiaries and companies in which it has an investment is, in turn, subject to restrictions, including the existence of sufficient distributable reserves and cash in those subsidiaries and applicable regulatory requirements.

Other corporate actions may be available to the Company to create distributable profits or reserves. These include, for example, actions in relation to the nominal value of its issued share capital and to other share capital accounts on its balance sheet, in each case which would have the effect of creating distributable reserves. The implementation of any one or more of these corporate actions may require prior regulatory

approvals, Shareholder approvals and/or court approvals. There is a risk that the Group would need to spend a significant amount of time, and incur significant costs, in connection with seeking such approvals. In addition, such approvals may not be forthcoming (or may be provided subject to certain conditions) which could result in the Company not being able to implement the required corporate steps to create or increase its distributable profits or reserves.

If the Company is unable to generate distributable profits or reserves through one or more of the means outlined above, the Company's ability to pay dividends to Shareholders would be adversely affected, which in turn could have a material adverse effect on the market price of the Shares. The Company is currently considering the most appropriate means by which to generate distributable profits or reserves through one or more of the processes outlined above. However, if the Company is unable to implement any of these options and cannot thereby generate distributable profits or reserves, the Company will be unable to pay dividends to Shareholders. There is therefore no guarantee that Shareholders will receive a return on their investment and they may receive a negative return and lose some or all of the capital invested.

**Any future issue of Shares, including in connection with an offering, the conversion of Additional Tier 1 Securities issued by the Company, any future acquisitions, any share incentive or share option plan or otherwise will further dilute the holdings of the then current Shareholders and could adversely affect the market price of Shares**

The Company may issue additional Shares in the future for a number of reasons. Any such future issue will further dilute the holdings of the then current Shareholders and could adversely affect the market price of Shares.

The Company may, in the future, issue Additional Tier 1 Securities. Additional Tier 1 Securities issued by a company are subordinated obligations of that company but would rank ahead of that company's shares in any winding-up of that company. Any such securities issued include a provision whereby if the CET1 ratio of that company falls below a specified percentage, distributions accrued and unpaid on the Additional Tier 1 Securities would be cancelled and the Additional Tier 1 Securities would be converted into the company's shares (depending on the terms of the instrument issued). As a result, the Company's then-existing Shareholders could suffer dilution in their percentage ownership upon any conversion of convertible securities, such as Additional Tier 1 Securities or similar securities, issued by the Company into Shares.

The Company may also seek to raise financing to fund future acquisitions and other growth opportunities. The Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. The Company's then-existing Shareholders would suffer dilution in their percentage ownership if they did not participate, or were not eligible to participate in, any such issues *pro rata* to their existing holdings.

**Following Admission, Spaldy Investments will hold 52.88 per cent. of the Shares and will therefore be able to exert control over the Group, and its interests may differ from or conflict with those of other Shareholders.**

Immediately following Admission, Spaldy Investments will hold 52.88 per cent. of the Shares. On the date of this document, the Company and the Controlling Shareholder Group have entered into the Relationship Agreement, which will come into effect on Admission. The Relationship Agreement has been entered into to ensure that the Company is capable at all times of carrying on its business independently of its controlling shareholder (as defined in the Listing Rules) and its associates as its main activity. In particular, the Relationship Agreement contains undertakings from the Controlling Shareholder Group that, among other things, (i) the Company's transactions and arrangements with it and/or any of its associates will be conducted at arm's length and on normal commercial terms; (ii) neither it nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and (iii) neither it nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules. Pursuant to the Relationship Agreement, the Controlling Shareholder Group will be entitled to appoint up to three directors to the Board and will be able to exercise this right at any time following Admission. There could be instances when the Controlling Shareholder Group has interests that diverge from those of the other Shareholders, and, notwithstanding the terms of the Relationship Agreement, the Controlling Shareholder Group has the ability to exercise control over the business of the Group and determine the outcome of matters submitted to a vote of shareholders. In particular, the Controlling Shareholder Group could pass or block shareholder resolutions requiring approval by a simple majority, such as the appointment or re-election of directors, irrespective of the vote of any other Shareholder. The

Controlling Shareholder Group's control over the Group could also have the effect of delaying or deterring a change in control of the Group, could deprive investors of an opportunity to receive a premium for their Shares as part of a sale of the Group and might affect the value of the Shares. Furthermore, future acquisitions by the Group may result in an increase in the collective shareholding of the Controlling Shareholder Group in the Group.

In addition, subject to and in connection with Spaldy Investments having obtained the Rule 9 Waiver in connection with the Firm Placing, Spaldy Investments has indicated that, taking into account the Group's cost reduction plan described elsewhere in this document, it has no plans to redeploy the Group's fixed assets or to introduce any substantial changes in the business of the Group, the management of the Company, the continued employment of its employees or their terms of employment. However, there can be no assurance that Spaldy Investments or the Controlling Shareholder Group will continue to support the strategy of the Group as described in Part II "*Information about the Group—Strategy*" or that Spaldy Investments or the Controlling Shareholder Group will not take decisions relating to the Group which could adversely affect the business, financial condition and results of operations of the Group.

**Shareholders outside the UK may be disadvantaged by local securities laws and service of process requirements**

The securities laws of certain jurisdictions outside the UK may restrict the participation by, or the Company's ability to allow participation of, certain Shareholders in such jurisdictions in any future issues carried out by the Company of Shares or of other securities. In the case of a future allotment of Shares for cash, the then-existing Shareholders have certain statutory pre-emption rights unless those rights are disapplied by a special resolution of the Shareholders at a general meeting. An issue of Shares not for cash or when pre-emption rights have been disapplied could dilute the interests of the then-existing Shareholders. In addition, it may not be possible for shareholders outside the United Kingdom to effect service of process against the Company, the Group or the Directors, or to enforce the judgment of a court outside the United Kingdom against the Company, the Group or the Directors.

**Shareholders outside the UK may not be able to participate in future equity offerings**

Securities laws of certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in any future issue of Shares carried out by the Company. Shareholders who have a registered address in or who are resident in, or who are citizens of, countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their New Shares.

# IMPORTANT INFORMATION

**Presentation of Financial Information**

The Company was incorporated on 29 September 2022 and was introduced as a new holding company above Metro Bank pursuant to a scheme of arrangement that became effective on 19 May 2023. As at the date of this document, the Company has no operations of its own. Therefore, this document does not present any standalone, unconsolidated financial information for the Company. Because of the Company's recent incorporation, this document presents financial information for the Company's wholly owned subsidiary, Metro Bank (together with its consolidated subsidiaries) as at and for each of the years ended 31 December 2020, 2021 and 2022. This document presents unaudited financial information of the Group as at and for each of the six months ended 30 June 2022 and 2023.

The audited consolidated financial statements of Metro Bank, together with its consolidated subsidiaries, as at and for the financial year ended 31 December 2020 (the "**2020 Financial Statements**") have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("**Post-Brexit IFRS**") and the audited consolidated financial statements of Metro Bank, together with its consolidated subsidiaries, as at and for each of the financial years ended 31 December 2021 (the "**2021 Financial Statements**") and 31 December 2022 (the "**2022 Financial Statements**") have been prepared in accordance with the UK-adopted international accounting standards ("**UK IFRS**") and in conformity with the requirements of the Companies Act 2006 (Post-Brexit IFRS, together with UK IFRS, "**IFRS**").

The unaudited condensed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2023 (which includes unaudited comparative financial information as at 30 June 2022 and for each of the six months ended 31 December 2022 and 30 June 2022) (the "**2023 Interim Financial Statements**") has been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' ("**IAS 34**").

Unless otherwise stated, the historical financial information relating to Metro Bank presented in this document has been extracted without material adjustment from the 2020 Financial Statements, the 2021 Financial Statements and the 2022 Financial Statements. The historical financial information relating to the Group has been extracted without material adjustment from the 2023 Interim Financial Statements. (together, with the 2020 Financial Statements, the 2021 Financial Statements and the 2022 Financial Statements, the "**Financial Statements**").

**Non-IFRS measures**

This document presents certain key performance measures of the Group that are not defined or recognised under IFRS but that the Group finds useful for decision making and for evaluating the performance of the Group and that it believes are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. These measures include capital expenditure, common equity tier 1 ratio ("**CET1 ratio**"), cost of risk, debt-to-value ratio ("**DTV ratio**"), liquidity coverage ratio ("**LCR**"), leverage ratio, loan-to-deposit ratio ("**LTD ratio**"), net interest margin ("**NIM**"), net stable funding ratio ("**NSFR**"), risk-weighted assets ("**RWAs**") total capital ratio, total capitalisation, total underlying income, underlying cost-to-income ratio, underlying net fee and other income, total underlying income, underlying net gains on sale of assets, underlying net interest income, underlying non-net interest income, underlying operating expenses and underlying profit / (loss) before tax, each as defined below (together, the "**non-IFRS measures**").

- "**Capital expenditure**" is defined as funds that are allocated for the acquisition or improvement of long-term assets with the expectation of generating benefits over an extended period. This comprises additions to property, plant and equipment and intangible assets.
- "**CET1 ratio**" is defined as share capital, share premium, retained earnings and other reserves and specified regulatory adjustments as a percentage of year-end RWAs.

The following table sets out the calculation of the Group's CET1 ratio for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | *(£ million except where otherwise indicated)* | | | | |
| Ordinary share capital | — | — | — | — | — |
| Share premium | 1,964 | 1,964 | 1,964 | 1,964 | — |
| Retained earnings | (694) | (942) | (1,015) | (1,004) | 962 |
| Other reserves | 19 | 13 | 7 | 9 | 8 |
| Intangible assets | (254) | (243) | (216) | (227) | (207) |
| Other regulatory adjustments | 157 | 144 | 79 | 74 | 50 |
| Total Tier 1 capital (CET1) | 1,192 | 936 | 819 | 816 | 813 |
| Risk weighted assets | 7,957 | 7,454 | 7,990 | 7,702 | 7,802 |
| CET1 ratio (%) | 15.0 | 12.6 | 10.3 | 10.6 | 10.4 |

- "**Cost of risk**" is defined as expected credit loss expense divided by average gross loans.

The following table sets out the calculation of the Group's cost of risk for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | *(£ million except where otherwise indicated)* | | | | |
| Expected credit loss expense | 126.7 | 22.4 | 39.9 | 17.9 | 11.3 |
| Average gross lending | 14,675 | 12,330 | 12,611 | 12,346 | 12,934 |
| Cost of risk (%) | 0.86 | 0.18 | 0.20 | 0.29 | 0.18 |

- "**DTV ratio**" is defined as the ratio of the gross outstanding amount of a loan to the indexed value of its collateral.
- "**LCR**" is calculated by dividing the total amount of high quality liquid assets by the total net cashflows anticipated over a 30-day stress period.
- "**Leverage ratio**" is defined as the ratio of total CET1 resources to total exposures.

The following table sets forth a reconciliation of the Group's leverage ratio to the nearest IFRS measure for the periods indicated.

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | *(£ million except where otherwise indicated)* | | | | |
| Total Tier 1 Capital | 1,192 | 936 | 819 | 816 | 813 |
| Total assets | 22,579 | 22,587 | 22,119 | 22,566 | 21,747 |
| Regulatory adjustments | (1,368) | (1,357) | (2,771) | (3,757) | (3,197) |
| Total exposures | 21,211 | 21,230 | 19,348 | 18,809 | 18,550 |
| Leverage ratio (%) | 5.6 | 4.4 | 4.2 | 4.3 | 4.4 |

- "**Liquidity**" is defined as the sum of cash, cash equivalents and other current financial assets.
- "**LTD ratio**" is defined as net loans and advances to customers divided by total customer deposits.

The following table sets out the calculation of the Group's LTD ratio for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | *(£ million except where otherwise indicated)* | | | | |
| Loans and advances to customers | 12,090 | 12,290 | 13,102 | 12,364 | 12,572 |
| Deposits from customers | 16,072 | 16,448 | 16,014 | 16,514 | 15,529 |
| LTD ratio (%) | 75 | 75 | 82 | 75 | 81 |

- "**NIM**" is defined as net interest income divided by average interest-earning assets.

The following table sets out the calculation of the Group's NIM for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | *(£ million except where otherwise indicated)* | | | | |
| Net interest income | 249.7 | 295.3 | 404.1 | 180.8 | 221.5 |
| Average interest-earning assets | 20,550 | 21,128 | 21,029 | 21,085 | 20,900 |
| NIM (%) | 1.22 | 1.40 | 1.92 | 1.73 | 2.14 |

- "**RWAs**" are defined as assets and off-balance sheet exposures, weighted according to risk.
- "**Total capital ratio**" is defined as the total of Tier 1 and Tier 2 capital as a percentage of year-end RWAs.

The following table sets out the calculation of the Group's total capital ratio for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | *(£ million except where otherwise indicated)* | | | | |
| **Total Tier 1 capital (CET1)** | 1,192 | 936 | 819 | 816 | 813 |
| Debt securities (Tier 2) | 249 | 249 | 250 | (249) | (217) |
| Total regulatory capital | 1,441 | 1,184 | 1,069 | 1,065 | 1,030 |
| **Risk weighted assets** | 7,957 | 7,454 | 7,990 | 7,702 | 7,802 |
| Total capital ratio (%) | 18.1 | 15.9 | 13.4 | 13.8 | 13.25 |

- "**Total capitalisation**" is defined as the sum of share capital, share premium, legal reserve(s) and other reserves.
- "**Total underlying income**" is defined as income or revenue excluding income associated with the C&I Fund. In respect of 2020 and 2021, it also excludes the impact of the £3 billion mortgage sale to NatWest in December 2020, including the income from servicing this portfolio until it was transferred in 2021.
- "**Underlying cost-to-income ratio**" is defined as underlying operating expenses divided by underlying total income.
- "**Underlying net fee and other income**" is defined as income or revenue excluding income associated with the C&I Fund. In respect of 2021, it also excludes impacts relating to the £3 billion mortgage sale to NatWest in December 2020.
- "**Underlying net gains on sale of assets**" is defined as net gain on sale of assets excluding the impact of the £3 billion mortgage portfolio asset sale to NatWest in December 2020, which impacted 2020 and 2021 financial reporting.
- "**Underlying net interest income**" is defined as net interest income excluding income associated with the C&I Fund.

- "**Underlying non-net interest income**" is defined as net fee and other income and net gain on sale of assets excluding income associated with the C&I Fund. In respect of 2020 and 2021, it also excludes the impact of the £3 billion mortgage sale to NatWest in December 2020.
- "**Underlying operating expenses**" is defined as expenses relating to people, depreciation and amortisation, IT, money transmission, occupancy, professional fees and other. It excludes (i) the costs associated with the C&I Fund, (ii) impairment and write-offs of property, plant, equipment and intangible assets: the costs associated with non-current assets that are either no longer being used by or are no longer generating future economic benefit for the business, (iii) remediation costs: money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA as well as work undertaken in relation to financial crime, (iv) transformation costs: primarily costs associated with redundancy programmes as part of the Group's approach to right-sizing teams as well as the costs of work undertaken to establish its cost reduction programme, (v) business acquisition and integration costs (2020 and 2021 only): the costs associated with acquiring and integrating RateSetter, (vi) mortgage portfolio sale (2020 and 2021 only): the cost of servicing this portfolio until it was transferred to NatWest in 2021, (vii) holding company insertion costs (2022 only): costs associated with the establishment and insertion of a holding company (Metro Bank Holdings PLC) above the operating company (Metro Bank PLC) to meet regulatory requirements and (viii) the costs of share awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing of Metro Bank on the London Stock Exchange.
- "**Underlying profit/(loss) before tax**" is defined as the sum of underlying net interest income, underlying net fee and other income and underlying net gains on sale of assets, less underlying operating expenses and expected credit loss expenses.

Some of the non-IFRS measures noted above are defined by, and calculated in compliance with, applicable banking regulations, which often provides the Group with certain discretion in making its calculations. A reconciliation of each non-IFRS measure to the most directly comparable measure calculated and presented in accordance with IFRS is set out below, see "—*Reconciliation of non-IFRS measures*".

Because of the discretion that the Group and other banks have in defining the non-IFRS measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other banks. These measures should not be used as a substitute for evaluating the performance of the Group based on the Financial Statements. Shareholders should not consider the non-IFRS measures in isolation nor place undue reliance on these non-IFRS measures and are advised to review them in conjunction with the historical financial information included in Part V.

As these measures are not determined in accordance with IFRS or any generally accepted accounting standards, and are thus susceptible to varying calculations, they may not be comparable to other similarly titled measures used by other companies and have limitations as analytical tools. In particular, there are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company, which means that other companies may define and calculate such measures differently from the Group. Non-IFRS measures have not been audited or reviewed. These Non-IFRS measures have also not been prepared in accordance with the requirements of Regulation S-X of the Securities Act, the UK Prospectus Regulation, IFRS or any generally accepted accounting standards.

## Reconciliation of non-IFRS measures

The following tables set forth reconciliations of the Group's underlying financial information to the nearest IFRS measure for the periods indicated.

***Year ended 31 December 2020***

| | Year ended 31 December 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Statutory basis** | **Listing Share Awards** | **Impairment and write-off of property, plant, equipment and intangible assets** | **C&I fund costs** | **Transformation costs** | **Remediation costs** | **Business acquisition and integration costs** | **Mortgage portfolio sale** | **Underlying basis** |
| | | | | | *£'million* | | | | |
| Net interest income | 249.7 | — | — | 0.6 | — | — | — | — | 250.3 |
| Net fee and commission income | 59.9 | — | — | — | — | — | — | — | 59.9 |
| Net gains on sale of assets | 73.3 | — | — | — | — | — | — | (69.0) | 4.3 |
| Other income | 49.7 | — | — | (23.3) | — | — | — | — | 26.4 |
| **Total income** | 432.6 | — | — | (22.7) | — | — | — | (69.0) | 340.9 |
| General operating expenses | (502.3) | (0.2) | — | 22.7 | 16.7 | 40.8 | 5.4 | 5.3 | (411.6) |
| Depreciation and amortisation | (74.4) | — | — | — | — | — | — | — | (74.4) |
| Impairment and write-offs of PPE and intangible assets | (40.6) | — | 40.6 | — | — | — | — | — | — |
| **Total operating expenses** | (617.3) | (0.2) | 40.6 | 22.7 | 16.7 | 40.8 | 5.4 | 5.3 | (486.0) |
| Expected credit loss expense | (126.7) | — | — | — | — | — | — | — | (126.7) |
| **Loss before tax** | (311.4) | (0.2) | 40.6 | 0.0 | 16.7 | 40.8 | 5.4 | (63.7) | (271.8) |

***Year ended 31 December 2021***

| | Year ended 31 December 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Statutory basis** | **Business acquisition and integration costs** | **Impairment and write-off of property, plant, equipment and intangible assets** | **Net C&I costs** | **Transformation costs** | **Mortgage portfolio sale** | **Remediation costs** | **Underlying basis** |
| | | | | *£'million* | | | | |
| Net interest income | 295.3 | — | — | 0.4 | — | — | — | 295.7 |
| Net fee and commission income | 69.6 | — | — | — | — | — | — | 69.6 |
| Net gains on sale of assets | 9.4 | — | — | — | — | (8.7) | — | 0.7 |
| Other income | 44.2 | — | — | (9.4) | — | (2.9) | — | 31.9 |
| Total income | 418.5 | — | — | (9.0) | — | (11.6) | — | 397.9 |
| General operating expenses | (536.1) | 2.4 | — | 9.0 | 8.9 | 3.3 | 45.9 | (466.6) |
| Depreciation and amortisation | (80.2) | — | — | — | — | — | — | (80.2) |
| Impairment and write-offs of property, plant, equipment and intangible assets | (24.9) | — | 24.9 | — | — | — | — | — |
| Total operating expenses | (641.2) | 2.4 | 24.9 | 9.0 | 8.9 | 3.3 | 45.9 | (546.8) |
| Expected credit loss expense | (22.4) | — | — | — | — | — | — | (22.4) |
| Loss before tax | (245.1) | 2.4 | 24.9 | — | 8.9 | (8.3) | 45.9 | (171.3) |

*Year ended 31 December 2022*

| | Year ended 31 December 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Statutory basis | Impairment and write-off of property, plant, equipment and intangible assets | Net C&I costs | Transformation costs | Remediation costs | Holding company insertion costs | Underlying basis |
| | | | | *£'million* | | | |
| Net interest income | 404.1 | — | 0.1 | — | — | — | 404.2 |
| Net fee and commission income | 81.8 | — | — | — | — | — | 81.8 |
| Net gains on sale of assets | — | — | — | — | — | — | — |
| Other income | 37.6 | — | (1.5) | — | — | — | 36.1 |
| **Total income** | 523.5 | — | (1.4) | — | — | — | 522.1 |
| General operating expenses | (467.6) | — | 1.4 | 3.3 | 5.3 | 1.8 | (455.8) |
| Depreciation and amortisation | (77.0) | — | — | | — | — | (77.0) |
| Impairment and write-offs of property, plant, equipment and intangible assets | (9.7) | 9.7 | — | — | — | — | — |
| **Total operating expenses** | (554.3) | 9.7 | 1.4 | 3.3 | 5.3 | 1.8 | (532.8) |
| Expected credit loss expense | (39.9) | — | — | — | — | — | (39.9) |
| **Loss before tax** | (70.7) | 9.7 | — | 3.3 | 5.3 | 1.8 | (50.6) |

***Six months ended 30 June 2022***

| | Half year to 30 June 2022 | | | | | |
|---|---|---|---|---|---|---|
| | **Statutory basis** | **Impairment and write offs of PPE and intangible assets** | **Net C&I costs** | **Transformation costs** | **Remediation costs** | **Underlying basis** |
| | | | *£'million* | | | |
| **Net interest income** | 180.8 | — | 0.1 | — | — | 180.9 |
| Net fee and commission income | 39.5 | — | — | — | — | 39.5 |
| Net gains on sale of assets | — | — | — | — | — | — |
| Other income | 16.2 | — | (0.4) | — | — | 15.8 |
| **Total income** | 236.5 | — | (0.3) | — | — | 236.2 |
| General operating expenses | (233.2) | — | 0.3 | 1.0 | 3.0 | (228.9) |
| Depreciation and amortisation | (37.4) | — | — | — | — | (37.4) |
| Impairment and write offs of property, plant, equipment and intangible assets | (8.2) | 8.2 | — | — | — | — |
| **Total operating expenses** | (278.8) | 8.2 | 0.3 | 1.0 | 3.0 | (266.3) |
| Expected credit loss expense | (17.9) | — | — | — | — | (17.9) |
| **Loss before tax** | (60.2) | 8.2 | — | 1.0 | 3.0 | (48.0) |

***Six months ended 30 June 2023***

| | Half year to 30 June 2023 | | | | |
|---|---|---|---|---|---|
| | **Statutory basis** | **Net C&I costs** | **Remediation costs** | **Holding company insertion costs** | **Underlying basis** |
| | | | *£'million* | | |
| **Net interest income** | 221.5 | — | — | — | 221.5 |
| Net fee and commission income | 42.2 | — | — | — | 42.2 |
| Net gains on sale of assets | 0.8 | — | | | 0.8 |
| Other income | 21.9 | (0.8) | | | 21.1 |
| **Total income** | 286.4 | (0.8) | — | — | 285.6 |
| General operating expenses | (221.4) | 0.8 | (0.8) | 1.5 | (219.9) |
| Depreciation and amortisation | (38.3) | — | — | — | (38.3) |
| Impairment and write offs of property, plant, equipment and intangible assets | — | — | | | — |
| **Total operating expenses** | (259.7) | 0.8 | (0.8) | 1.5 | (258.2) |
| Expected credit loss expense | (11.3) | — | — | — | (11.3) |
| **Profit before tax** | 15.4 | — | (0.8) | 1.5 | 16.1 |

### Non-financial information operating data

The non-financial operating data included in this document has been extracted without material adjustment from the management records of the Group and is unaudited.

### Unaudited *Pro Forma* Financial Information

The unaudited *pro forma* financial information contained herein has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not represent the Group's actual financial position or results. The unaudited *pro forma* financial information has been prepared on the basis set out in Section A of Part VII (*Unaudited Pro Forma* Financial Information) of this document and in

accordance with Annex 20 of the Prospectus Regulation Rules. The unaudited *pro forma* financial information is stated on the basis of the accounting policies of the Group.

**Market and Industry Information**

Market data and certain industry forecasts used in this document has been sourced from third parties. The Company confirms that all third-party information contained in this document has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. While the market data and industry forecasts are believed by the Company to be reliable and accurately extracted by the Company for the purposes of this document, they have not been independently verified and the Company makes no representation as to the accuracy of such information.

Where third-party information has been used in this document, the source of such information has been identified. The Company believes that the information provided by these third parties is reliable, but the accuracy and completeness of this information is not guaranteed and any related estimates or projections may be based on significant assumptions. This third party information was not produced for the purposes of inclusion within any prospectus for a transaction of the nature contemplated herein or for securing financing of any nature.

**Cautionary Note Regarding Forward-Looking Statements**

This document and the information incorporated by reference into this document include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "seeks", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and the information incorporated by reference into this document and include statements regarding the intentions, beliefs or current expectations of the Directors, the Company or the Group concerning, amongst other things, the operating results, financial condition, prospects, growth, strategies and dividend policy of the Group and the sectors and markets in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Directors' or the Company's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual operating results, financial condition, dividend policy and the development of the sectors and markets in which it operates may differ materially from the impression created by the forward-looking statements contained in this document and/or the information incorporated by reference into this document. In addition, even if the operating results, financial condition and dividend policy of the Group, and the development of the sectors and markets in which it operates, are consistent with the forward-looking statements contained in this document and/or the information incorporated by reference into this document, those results or developments may not be indicative of results or the development of such sectors and markets in subsequent periods. Important factors that could cause these differences include, but are not limited to, general political, economic and business conditions, sector and market trends, changes in government, changes in law or regulation, stakeholder perception of the Group and/or the sectors or markets in which it operates, and those risks described in the section of this document headed "*Risk Factors*".

You are advised to read this document and the information incorporated by reference into this document in their entirety, and, in particular, the section of this document headed "*Risk Factors*", for a further discussion of the factors that could affect the Company's future performance and the sectors and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document and/or the information incorporated by reference into this document may not occur.

The forward-looking statements speak only as at the date of this document.

Other than in accordance with their legal or regulatory obligations (including under the Listing Rules, the Disclosure Guidance and Transparency Rules, the Prospectus Regulation Rules and UK MAR), neither the Company nor RBC undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

**No Incorporation of Websites**

The contents of the Company's website (https://www.metrobankonline.co.uk) and the contents of any website accessible from hyperlinks on such website (other than the information as set out in Part X of this document) do not form part of this document and are not incorporated into, and do not form part of, this document and no one should rely on them.

**Currencies**

In this document and the information incorporated by reference into this document, references to "**£**", "**sterling**" or "**pounds sterling**" are to the lawful currency of the United Kingdom.

**Rounding**

Percentages and certain amounts in this document, including financial, statistical and operational information, have been rounded. As a result, the figures shown as totals may not be the precise sum of the figures that precede them.

**Definitions**

All references to financial or operational data of "the Group" in this document as at and for the years ended 31 December 2020, 2021 and 2022 should be read as referring to Metro Bank and its consolidated subsidiaries. For further detail on the relationship between the Group, the Company and Metro Bank, see "*—Presentation of Financial Information*".

Certain terms used in this document, including all capitalised terms and certain technical and other terms, are defined and explained in Part XII of this document.

**Enforcement of Civil Liabilities**

The ability of persons who have registered addresses outside the UK, or who are citizens of or resident or located in countries other than the UK (each an "**Overseas Person**") to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England and Wales. The rights of holders of the Shares are governed by English law and by the Articles of Association. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations.

An Overseas Person may not be able to enforce a judgment against some or all of the Directors and the executive officers. The majority of the Directors and executive officers are residents of the United Kingdom. Consequently, it may not be possible for an Overseas Person to effect service of process upon the Directors and the executive officers within the Overseas Person's country of residence or to enforce against the Directors and the executive officers judgments of courts of the Overseas Person's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Person will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the United Kingdom against the Directors or the executive officers who are residents of the United Kingdom or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or the executive officers in any original action based solely on the foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

# DIRECTORS, SENIOR MANAGERS AND ADVISERS

**Board of Directors**

A list of the Directors is set forth in the table below.

| Name | Age | Date of Appointment | Position |
|---|---|---|---|
| Robert Sharpe | 74 | 29 September 2022 | Chair |
| Daniel Frumkin | 59 | 29 September 2022 | Chief Executive Officer |
| James Hopkinson | 47 | 7 March 2023 | Chief Financial Officer |
| Anna (Monique) Melis | 57 | 7 March 2023 | Senior Independent Director |
| Catherine Brown | 57 | 7 March 2023 | Independent Non-Executive Director |
| Dorita Gilinski | 34 | 7 March 2023 | Shareholder Appointed Non-Executive Director |
| Anne Grim | 62 | 7 March 2023 | Independent Non-Executive Director |
| Ian Henderson | 63 | 7 March 2023 | Independent Non-Executive Director |
| Paul Thandi | 57 | 7 March 2023 | Independent Non-Executive Director |
| Michael Torpey | 64 | 7 March 2023 | Independent Non-Executive Director |
| Nicholas Winsor | 62 | 7 March 2023 | Independent Non-Executive Director |

Each of the Directors' business address is One Southampton Row, London WC1B 5HA, and each of the Directors' business telephone number is 020 3402 8385 or, when dialling from outside the United Kingdom, +44 20 3402 8385.

The Non-Executive Directors have letters of appointment reflecting their responsibilities and commitments, pursuant to which they are currently appointed for a three-year term which may be renewed subject to their re-election by shareholders at annual general meetings.

Dorita Gilinski is not an independent Director for the purposes of the City Code as she is a concert party of Spaldy Investments.

**Robert Sharpe – Chair**

Robert has over 45 years' experience in retail banking. He is currently chair at Hampshire Trust Bank plc, Pollen Street PLC and Alba Bank Limited. He has had an extensive number of appointments both in the UK and the Middle East including chair of Bank of Ireland (UK) plc, Aspinall Financial Services Limited, Honeycomb Investment Trust plc, Vaultex Limited and RIAS plc. He has also been a non-executive director at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, LSL Properties plc, and has held several independent non-executive director roles at banks in Qatar, the UAE, Oman and Turkey. Robert was previously CEO at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was CEO at Portman Building Society, Bank of Ireland's consumer business in the UK and Bank of America's UK retail banking business.

**Daniel Frumkin – Chief Executive Officer**

Prior to joining the Group, Daniel worked in the United States, the UK, Eastern Europe and Bermuda. He has performed business, risk, product and commercial executive level roles throughout his career. Most recently, Daniel was group chief operating officer at Butterfield Bank, with responsibility for eight jurisdictions across the globe covering a range of business and support areas.

**James Hopkinson – Chief Financial Officer**

James started his career at PricewaterhouseCoopers where he specialised in tax accounting and consultancy and qualified as a chartered accountant with the Institute of Chartered Accountants of England and Wales. Most recently, he served as the CFO and executive director for Clearbank Limited. He worked for Standard Chartered Bank from 2001 to 2019 in a variety of roles ranging from heading up corporate and institutional businesses, to group head of investor relations and most recently performing the role as chief financial officer for the group's countries, regions and business segments. James was also the CFO for the global retail banking business and the co-leader of the global finance function.

**Anna (Monique) Melis – Senior Independent Director**

Monique is a managing director and global service line leader of financial services compliance and regulatory practice at KROLL Advisory Ltd. She is also a director of the KROLL Luxembourg Management Company Sarl board and the KROLL Advisory Ltd board. With extensive financial services and regulatory experience across established and growth markets, her appointments have included executive board member at Kinetic Partners and roles at the Cayman Islands Regulator and Stock Exchange, the Financial Services Authority and the Securities and Futures Authority. Monique is a member of the Chartered Institute for Securities & Investment. Monique is also a non-executive director at The Bank of London.

**Catherine Brown – Independent Non-Executive Director**

Catherine holds various roles including with: FNZ (UK) Limited and QBE Underwriting Limited and QBE UK Limited. Catherine previously held a non-executive director role at the Cabinet Office and served as the Chair of Additive Flow Ltd and The Plastic Economy Ltd. until August 2023. She was a trustee of Cancer Research UK, one of the UK's largest charities and has served as a trustee of Chatham House. Catherine has extensive experience in organisational transformation in financial services and a wide range of experience in leadership and operations. Her previous executive appointments include acting as group strategy director at Lloyds Banking Group, executive director of human resources at the Bank of England and chief operating officer at Apax Partners.

**Dorita Gilinski – Shareholder Appointed Non-Executive Director**

Dorita is the president of JGB Financial Holding Company and a member of the board of directors and the audit committee of Banco GNB Paraguay. Dorita co-led the launch of Lulo Bank, the first fully digitalised bank in Colombia. She brings significant experience in banking, including digital banking and marketing, as well as strategic planning and stakeholder engagement to her Non-Executive Director role. Prior to these roles, Dorita founded the Dori Gilinski Gallery and Libros Para Niños, a non-profit organisation that connects UK volunteers with Latin American schools and charities. Dorita is a graduate of the University of Oxford and holds an MBA from Harvard Business School. Dorita is a shareholder-nominated Non-Executive Director, nominated by her father Jaime Gilinski Bacal, who is a significant shareholder of the Company, through his Spaldy Investments vehicle.

**Anne Grim – Independent Non-Executive Director**

Anne is an experienced executive turned advisor, consultant and board director with more than 30 years of experience in senior financial services leadership roles at Barclays, Wells Fargo, American Express, Mastercard and acted most recently as chief customer officer at Fidelity International, prior to embarking on her board portfolio career. Her expertise is in customer experience, strategic planning and execution, technology innovation and business transformation. Anne is an independent non-executive board member for Insight Investment, where she chairs Insight Investment Funds Management Ltd and the Insight Investment Strategic technology Committee; CXpertin Ltd, where she is a non-executive director, and Plus500 Ltd where she is senior independent director and chair of the remuneration committee. Previous directorships include Openwork Holdings Limited, Fidelity Holdings UK, Fidelity UK Pension Board and Openwork Limited. Anne holds a Bachelor's degree in mathematics and computer science and a Master's of Business Administration in strategic management and finance, both from the University of Illinois.

**Ian Henderson – Independent Non-Executive Director**

Ian has more than 30 years' experience in retail and business banking and wealth management. Most recently, he was CEO of Kyckr, a RegTech business providing global KYC solutions to banks, payments services providers and other regulated businesses. Ian is also a member trustee of the Chartered Bankers Institute and a director of IAH (NED) Ltd. Since 2012, he has been actively involved in the UK challenger bank sector holding CEO roles at Arbuthnot Latham & Co Limited, Kensington Mortgages, and Shawbrook Bank and a directorship at GB Bank Limited. Prior to this, he was chief operating officer of the private banking businesses in Barclays Wealth and before that he was with the Royal Bank of Scotland ("**RBS**") for 21 years. His final role there was as CEO of RBS International. He also held the positions of chief operating officer retail banking and marketing director at RBS and NatWest. Ian holds degrees in economics and finance from Scottish and Canadian universities and an MBA.

**Paul Thandi – Independent Non-Executive Director**

Paul is an experienced CEO, chair and non-executive director with diverse international media and service-led experience with an emphasis on people, innovation, data and culture. Paul is chair of Boxpark and chair of the NEC Group in Birmingham where he has successfully steered the NEC on a journey from public sector ownership to a £307 million management buyout in 2015, and then an acquisition of the NEC Group by Blackstone in 2018. In addition, Paul sits on the board of the West Midlands Growth Company Limited, the British Allied Trades Federation, The Student Energy Group Ltd and WMG Enterprises Limited. He is also a patron of Marie Curie and sits on the advisory board of Bowel Cancer UK. Paul is Deputy Lieutenant of West Midlands Lieutenancy, representing the King in the region, and was awarded a CBE for services to the economy in The Queen's New Year's Honours List 2020.

**Michael Torpey – Independent Non-Executive Director**

Michael retired from the position of chief executive of the corporate and treasury division and member of the group executive committee at Bank of Ireland in August 2018. He has extensive experience in senior roles across financial services. He is currently also a non-executive director of Studio Retail Group plc, FICS Group Holdings Limited and Frasers Group Financial Services Limited. His past appointments include acting as head of banking at the National Treasury Management Agency in Ireland, group treasurer at Irish Life & Permanent plc, senior treasury adviser at Irish Financial Regulator, director roles with Howth Yacht Club clg and BIAM Holdings Unlimited Company, finance director at Ulster Bank Group and finance director at First Active plc.

**Nicholas Winsor – Independent Non-Executive Director**

Nick is an independent consultant and non-executive director. He is a non-executive director of Schroder Oriental Income Limited, chair of its nomination and remuneration committee and a member of its audit and risk and management engagement committees. He is also senior independent director of the Jersey Development Company, chair of its remuneration and nomination committee and a member of the audit committee, a non-executive director for Bankers Without Boundaries Connect Singapore Pte Ltd and a consultant for the fintech company Y L Equity Pte Ltd. Nick has more than 35 years of international banking experience with HSBC Group in a number of markets: Brunei, Channel Islands, Hong Kong, India, Japan, Qatar, Singapore, Taiwan, United Arab Emirates and the United Kingdom. He was chief executive officer of HSBC Group's businesses in Channel Islands and Taiwan and a director of HSBC Bank Middle East Limited. Nick is also chair of Autism Jersey and was awarded an MBE for services to the community in the Queen's 2020 Birthday Honours List. He holds a Masters in Physics from Oxford University and is a fellow of the Institute of Directors.

**Controlling Shareholder Group Director appointment rights under the Relationship Agreement**

On the date of this document, the Company and the Controlling Shareholder Group have entered into the Relationship Agreement, which will come into effect on Admission. The Relationship Agreement has been entered into to ensure that the Company is capable at all times of carrying on its business independently of its controlling shareholder (as defined in the Listing Rules) and its associates as its main activity. The Relationship Agreement also provides that the Controlling Shareholder Group will (together) have the right at any time following Admission to appoint:

- three Non-Executive Directors in total to the Board, provided that the Controlling Shareholders hold, in aggregate, at least 30 per cent. of the issued share capital of the Company;
- two Non-Executive Directors in total to the Board, provided that the Controlling Shareholders hold, in aggregate, at least 15 per cent., but less than 30 per cent., of the issued share capital of the Company; and
- one Non-Executive Director in total to the Board, provided that the Controlling Shareholders hold, in aggregate, at least 10 per cent., but less than 15 per cent., of the issued share capital of the Company.

**Senior Managers**

The Senior Managers, and their respective positions within the Group, are listed below.

| Name | Position |
|---|---|
| Tina Coates | Director, Corporate Affairs |
| Carol Frost | Chief People Officer |
| Faisal Hussain | Chief Information and Chief Transformation Officer |
| Aisling Kane | Chief Operations Officer |
| Richard Saulet | Managing Director, Consumer Finance |
| Dominic McGuinness | Compliance Director |
| Kirsten McLeod | Chief Risk Officer |
| David Thomasson | Managing Director, Banking Products & Digital |
| Ian Walters | Managing Director, Distribution |
| Kathy Newman | Chief Internal Auditor |

Each senior manager's business address is One Southampton Row, London WC1B 5HA, and each senior manager's business telephone number is 020 3402 8385, or, when dialling from outside the United Kingdom, +44 20 3402 8900.

**Tina Coates – Director, Corporate Affairs**

Tina is responsible for the Group's internal and external communication, public affairs, reputation management and setting its ESG agenda.

**Carol Frost – Chief People Officer**

Carol is responsible for all aspects of the Group's people function, with a focus on developing diverse talent and capability across every level to build on its unique culture.

**Faisal Hussain – Chief Information and Chief Transformation Officer**

Faisal is responsible for running and developing the Group's IT. He is also responsible for developing and delivering its transformation and change agenda.

**Aisling Kane – Chief Operations Officer**

Aisling looks after everything that makes the Group run smoothly, including its contact centres, all banking and lending operations, customer support, financial crime prevention, procurement and property.

**Richard Saulet – Managing Director, Consumer Finance**

Richard is responsible for the Group's unsecured lending to consumers and businesses under both the *Metro Bank* and *RateSetter* brands and driving the customer experience agenda.

**Dominic McGuinness – Compliance Director**

Dominic provides oversight of the Group's compliance activities including conduct and regulatory compliance, risk appetite, assurance activities and regulatory engagement. He has extensive experience leading compliance teams both in the specialist lending sector and also challenger bank space, most recently as Compliance Director at Aldermore Bank.

**Kirsten McLeod – Chief Risk Officer**

Kirsten is responsible for management and oversight of the Group's risk and control framework.

**David Thomasson – Managing Director, Banking Products & Digital**

David is responsible for providing current accounts, savings and mortgages products to customers as well as the channels to interact with the Group digitally. David also leads the Brand and Marketing and Customer Analytics functions.

**Ian Walters – Managing Director, Distribution**

Ian is responsible for the Group's front-line teams serving retail, business, private and commercial customers. This includes stores and relationship teams who are focused on delivering great customer service.

**Kathy Newman – Chief Internal Auditor**

Kathy is responsible for providing assurance to ensure that the Group operates in a safe and sustainable way.

**The Corporate Governance Code**

The Group recognises the importance of, and is committed to, high standards of corporate governance. The following paragraphs explain how the Group has applied the main and supporting principles set out in the Corporate Governance Code.

During the financial year ended 31 December 2022, the Company was in compliance with the Corporate Governance Code, with the exception of one instance as set out below and as described on page 101 of the 2022 Annual Report and Accounts, which is incorporated by reference into this document as set out in Part XI of this document.

The Corporate Governance Code requires that the pension contribution rates for executive directors be aligned with those available to colleagues. The pension contribution rate for the former chief financial officer (who was an executive director) was 10 per cent. of base salary, which was not in compliance with the Corporate Governance Code at the time. The former chief financial officer resigned on 15 February 2022. Per the Group's current Remuneration Policy, the contribution of the current chief financial officer (who is an executive director) is now aligned with those available to colleagues, which is currently at a rate of 8 per cent. of base salary. Accordingly, following the change in the chief financial officer, the Group now fully complies with the Corporate Governance Code.

**Board Committees**

The Board and the board of directors of Metro Bank (together, the "**Boards**") have jointly established a number of committees, whose terms of reference are documented formally and updated as necessary. If the need should arise, the Boards may set up additional committees as appropriate.

***Audit Committee***

Information concerning the Audit Committee is set out in the Audit Committee report on pages 124–129 of the 2022 Annual Report and Accounts (which is incorporated into Part X of this document as set out in Part XI of this document).

***Group Risk Oversight Committee ("GROC") and Risk Oversight Committee ("ROC")***

Information concerning the Risk Oversight Committee is set out in the Risk Oversight Committee report on pages 130–133 of the 2022 Annual Report and Accounts (which is incorporated into Part X of this document as set out in Part XI of this document). Since 31 December 2022, GROC has been established as the Company's risk oversight committee.

***Nomination Committee***

Information concerning the Nomination Committee is set out in the Nomination Committee report on pages 134–137 of the 2022 Annual Report and Accounts (which is incorporated into Part X of this document as set out in Part XI of this document)

***People and Remuneration Committee***

On 6 October 2022, the Remuneration Committee approved changes to its Terms of Reference to include additional duties and to change the name of the Remuneration Committee to the People and Remuneration Committee. These changes were approved by the Board on 18 October 2022.

The changes to the remit of the People and Remuneration Committee include a report from the Designated Non-Executive Director for Colleague Engagement to cover feedback received from colleagues on remuneration matters, and reviewing the population of in-scope colleagues under the Senior Managers and Certification Regime for their individual development and succession plans. The People and Remuneration Committee will also have oversight of the Group's diversity and inclusion strategy.

Information concerning the previous Remuneration Committee is set out in the People and Remuneration Committee report, Remuneration at a glance, People and Remuneration Committee governance and Annual Report on remuneration sections on pages 138–165 of the 2022 Annual Report and Accounts (which is incorporated into Part X of this document as set out in Part XI of this document.

**Remuneration and Pension Benefits**

Details regarding remuneration of Directors are set out in paragraph 18 of Part X of this document.

**Registered Office, Company Secretary and Advisers**

| | |
|---|---|
| **Registered Office** | One Southampton Row<br>London WC1B 5HA |
| **Company Secretary** | Clare Gilligan |
| **Sponsor and Placing Agent** | RBC Europe Limited<br>100 Bishopsgate<br>London EC2N 4AA |
| **Auditors and Reporting Accountants to the Company** | PricewaterhouseCoopers LLP<br>7 More London Riverside<br>London SE1 2RT |
| **Legal advisers to the Company as to English and United States law** | Linklaters LLP<br>One Silk Street<br>London EC2Y 8HQ |
| **Legal advisers to RBC as to English and United States law** | Clifford Chance LLP<br>10 Upper Bank Street<br>London E14 5JJ |
| **Registrar** | Equiniti Limited<br>Aspect House<br>Spencer Road, Lancing<br>West Sussex BN99 6DA |
| **Receiving Agent** | Metro Bank Holdings PLC<br>One Southampton Row<br>London WC1B 5HA |

# PART I

# LETTER FROM THE CHAIR OF METRO BANK HOLDINGS PLC

Robert Sharpe (Chair)
Daniel Frumkin (Chief Executive Officer)
James Hopkinson (Chief Financial Officer)
Anna (Monique) Melis (Senior Independent Director)
Catherine Brown (Independent Non-Executive Director)
Dorita Gilinski (Shareholder Appointed Non-Executive Director)
Anne Grim (Independent Non-Executive Director)
Ian Henderson (Independent Non-Executive Director)
Paul Thandi (Independent Non-Executive Director)
Michael Torpey (Independent Non-Executive Director)
Nicholas Winsor (Independent Non-Executive Director)

Registered Office:
One Southampton Row
London WC1B 5HA

9 November 2023

Dear Shareholder,

**PROPOSED TRANSACTIONS**

## 1 Introduction

Metro Bank plc was founded in 2010 as the first full-service, independent, new high street bank to open in the UK in more than 150 years. The Group seeks to become the number one community bank and uses a disruptive, service-led, deposit-driven funding model and a customer service proposition that emphasises simple, straightforward banking in order to turn its customers into "FANS" (customers created through delivering exceptional customer service and who then champion the Group by actively recommending it to friends and family).

This strategy has enabled the Group to build a business that is providing meaningful competition against larger incumbents and offering a compelling alternative for retail, private, small business and commercial customers. Reflecting the strength of its customer service-led proposition, in 2023, Metro Bank, for the eleventh time, was voted as the top rated high street bank for overall service quality to personal current account customers and was also ranked as the best high street bank for in-store personal and business service in the Competition and Markets Authority ("**CMA**") service quality survey.

During the period from 2019 to 2022, the Group worked to deliver a transformation plan which was centred on driving higher revenue, keeping costs firmly under control and optimising the Group's balance sheet, while maintaining service standards, protecting the Group's culture and supporting communities. The transformation plan was inaugurated to set the Group on a path back to sustainable profitability and growth, and to build a platform with scalable and robust infrastructure, effective controls, and strong governance, while staying true to the Group's community banking model.

The Group's first half 2023 financial results reflected progress against the priorities set out in 2019. The execution of the transformation strategy saw the Group markedly reduce annual losses in 2022 and return to profitability on an underlying profit before tax basis in the fourth quarter of 2022. On 1 August 2023, the Group published its interim results as at and for six months ended 30 June 2023, delivering underlying profit before tax of £16.1 million. Importantly, the period-end marked the Group delivering two consecutive quarters of profitability on a statutory after-tax basis. On 7 November 2023, the Company published a trading update for the third quarter of 2023. The trading update reflected a third consecutive quarter of profitability on a statutory after-tax basis and continued robust growth in customer numbers. Further details of these results can be found in paragraph 9 of this letter below.

The purpose of this letter is to: (i) explain the background to and reasons for the Transactions; (ii) summarise the key terms and conditions of the Transactions; (iii) explain why the Board considers that the Transactions and the related Shareholder Resolutions to be proposed at the General Meeting are in the best interests of Shareholders as a whole; and (iv) seek your approval for the Shareholder Resolutions to be proposed at the General Meeting.

The Transactions are conditional on, among other things, the passing of the Shareholder Resolutions by the Shareholders (or, in the case of the Rule 9 Waiver Resolution, the resolution having been passed by the Independent Shareholders) at the General Meeting, which is scheduled to take place at to be held at 11:30 a.m. (London time) on 27 November 2023. You can find the Notice of General Meeting at the end of this document.

The Board unanimously recommends that Shareholders vote in favour of Shareholder Resolutions 1, 2 and 3 and the Independent Directors unanimously recommend that Independent Shareholders vote in favour of the Rule 9 Waiver Resolution. For more information on the importance of Shareholders and Independent Shareholders, as applicable, voting in favour of the Shareholder Resolutions, see paragraph 1 of this letter below.

## 2 Background to, and reasons for, the Transactions and the Rule 9 Waiver

***The Transactions***

As at 30 June 2023, Metro Bank's CET1 ratio was 10.4 per cent. of RWAs and its MREL ratio was 18.1 per cent. of RWAs. Accordingly, the CET1 ratio exceeded Metro Bank's minimum CET1 requirement of 4.7 per cent (excluding buffers) and MREL ratio exceeded Metro Bank's end-state MREL requirement of 16.7 per cent. of RWAs (excluding buffers)). However, the Company (on a consolidated basis) and Metro Bank (on a solo basis) did not meet the Combined Buffer Requirement above MREL. When, with effect from 5 July 2023, the Countercyclical Buffer part of the Combined Buffer Requirement increased from 1 per cent. to 2 per cent., the Company (on a consolidated basis) and Metro Bank (on a solo basis) were unable to meet the Combined Buffer Requirement on an absolute basis. As a result, they became subject to formulaic provisions set out in the PRA Rulebook which:

- restrict (to a Maximum Distributable Amount ("**MDA**")) their ability to make or create an obligation to pay certain payments, including dividends on ordinary shares and payments of variable remuneration or discretionary pension benefits, if the obligation to pay was created at a time when the Company or Metro Bank, as the case may be, did not meet the Combined Buffer Requirement; and
- in effect, make any such payments subject to the PRA's approval (the "**MDA restrictions**").

Firms subject to the MDA restrictions must submit a capital conservation plan to the PRA including, amongst other things, their capital increase plan and timeframe for restoring compliance with the Combined Buffer Requirement. The Transactions largely form part of the Group's current capital conservation plan.

On 27 July 2023, the Bank of England's Resolution Directorate confirmed to the Group that the eligibility of the Existing Tier 2 Notes to count towards the Bank's MREL requirement would be extended until the maturity date of 26 June 2028, with appropriate adjustments to reflect the Tier 2 treatment amortisation in the final year before maturity. Metro Bank's Existing MREL Notes have a first call date of 8 October 2024. After this date this instrument is no longer MREL-eligible and will need to be refinanced.

Metro Bank continues to use the standardised approach for all of its credit risk (including in respect of its mortgage book), as the PRA has not yet granted it permission to use the AIRB approach and has confirmed that such permission will not be granted in 2023. On 12 September 2023, Metro Bank announced this to the market, and it continues to engage with the PRA on the accreditation of its AIRB permission application, starting with retail mortgages. However, there is no certainty that approval will be obtained, or the timing or impact of such approval, and until such time there would be no capital relief opportunity in the form of reducing RWA by using a more risk-sensitive approach to credit risk.

Given the Group's current capital position (as described above), the upcoming maturity of the Existing MREL Notes and following appropriate regulatory engagement, the Directors believe it is necessary to strengthen the Group's balance sheet as soon as possible. The capital package proposed in the form of the Transactions would significantly strengthen the Group's CET1 ratio and restore compliance with the Combined Buffer Requirement (also referred to in market communications as the "CRD IV Combined Buffer") and would achieve a debt capital structure with longer maturity and greater quantum of debt capital.

In order to strengthen its balance sheet and deliver on the strategy described above, the Group announced on 8 October 2023 that it had agreed to undertake the following transactions, subject to the satisfaction of certain conditions:

- *Firm Placing:* the Company intends to raise gross proceeds of £150 million (approximately £144 million after deduction of estimated fees, costs and expenses of approximately £6 million) by way of a Firm Placing at a price of 30 pence per New Share to the Firm Placees who have committed to subscribe for the New Shares. This will include a £102 million investment from Spaldy Investments, which will become a 52.88 per cent. shareholder in the Company upon completion of the Transactions and, consequently, the Firm Placing will be subject to the approval of the Rule 9 Waiver Resolution by Independent Shareholders in respect of the mandatory offer obligation which would otherwise arise on Spaldy Investments under the City Code;
- *Issuance of New Tier 2 Notes*: on 7 November 2023, Metro Bank circulated a notice of written resolution to the holders of its Existing Tier 2 Notes requesting such holders to consent to modifications to the terms and conditions of the Existing Tier 2 Notes such that the maturity date of the Existing Tier 2 Notes will be brought forward to the date of Admission and the redemption of the Existing Tier 2 Notes will be effected by way of delivery, to, or to the account of, the holders thereof, of £600 in principal amount of New Tier 2 Notes to be issued by the Company for each £1,000 in principal amount of Existing Tier 2 Notes held by each holder plus any accrued and unpaid interest in respect of such Existing Tier 2 Notes. The Existing Tier 2 Notes is fully written off by way of effective exchange into £150 million New Tier 2 Notes, resulting in an increase to the Group's CET1 capital of £100 million. The modifications to the terms and conditions of the Existing Tier 2 Notes described in this paragraph will only be effective upon the passing of the written resolution, satisfaction of the eligibility condition, the implementation of the written resolution and satisfaction of the effectiveness conditions;
- *Issuance of Cash New MREL Notes*: the Company intends to raise gross proceeds of £175 million (approximately £168 million after deduction of estimated fees, costs and expenses of approximately £7 million) by way of the issuance of the Cash New MREL Notes; and
- *Issuance of Non-Cash New MREL Notes:* on 7 November 2023, the Company circulated a notice of written resolution to the holders of its Existing MREL Notes requesting such holders to consent to modifications to the terms and conditions of the Existing MREL Notes such that the maturity date of the Existing MREL Notes will be brought forward to the date of Admission and the redemption of the Existing MREL Notes will be effected by way of delivery, to the holders thereof, of £1,000 in principal amount of New MREL Notes to be issued by the Company for each £1,000 in principal amount of Existing MREL Notes held by each holder plus any accrued and unpaid interest in respect of such Existing MREL Notes. The modifications to the terms and conditions of the Existing MREL Notes described in this paragraph will only be effective upon the passing of the written resolution, satisfaction of the eligibility condition, the implementation of the written resolution and satisfaction of the effectiveness conditions.

For the avoidance of doubt, the New MREL Notes shall form a single series.

The Transactions are inter-conditional and are each subject to various conditions. For further detail, see "*—The Firm Placing—Conditionality*" below.

In parallel with the Transactions, Metro Bank announced on 8 October 2023 that it was in discussions regarding the Asset Sale, which will comprise the sale of up to £3 billion of retail mortgages, consistent with the successful similar transaction the Group executed in December 2020. The Asset Sale as proposed is expected to achieve a further improvement of the CET1 ratio and MREL ratio of the Company and Metro Bank by reducing RWAs by approximately £1 billion (assuming an approximately £3 billion Asset Sale), thereby allowing the Group to reinvest proceeds into cash at a higher yield.

In addition to restoring the capital strength of the Group and putting it in full compliance with minimum capital requirements, MREL and the Combined Buffer Requirement, the Directors believe that the Transactions provide a significant opportunity that the Group can benefit from, given its renewed balance sheet strength. In particular, the Directors believe that this renewed balance sheet strength, together with Fitch's indication that it will raise its credit rating of the Group following

completion of the Transactions, will enable the Group to attract more customers, particularly in the Business and Commercial group, and also attract more ratings-sensitive deposits. Having delivered the transformation plan set out in early 2020, the Group now benefits from having delivered three consecutive quarters of profitability on a statutory after-tax basis, from the first quarter of 2023 through the third quarter of 2023, while retaining its unique culture and customer-centred approach and having a robust and scalable infrastructure at its disposal.

The Group has identified a sizeable and important opportunity to increase market share in deposits over the medium term, and it estimates there is an approximately £15 billion deposit growth opportunity across Cash ISAs, Business Easy Access and Retail Easy Access accounts just to reach the Group's natural market share levels (based on the Group's current market share of personal current accounts and business current accounts, respectively). The Directors believe that accessing this opportunity will be facilitated by an investment in capabilities that is already underway, including improved individual savings account ("**ISA**") switching capability, enhanced pricing capability and new digital origination capabilities which are expected to be delivered by 31 March 2024.

The Group has been organically accreting capital in recent months at a gradual pace. This capital accretion also increases the Company's capacity to grow assets with a favourable maturation and repricing trajectory over the next several years.

At present, the Group is actively limiting origination volumes in order to manage its capital position. However, assuming the Transactions successfully close and capital compliance is restored, the Directors believe that a meaningful increase in originations could be achieved over time. In particular, the Group intends to leverage the success of the Transactions to focus asset growth on specialist mortgages (which include limited company buy-to-let mortgages, shared ownership mortgages and shared equity mortgages) and commercial lending, where the Company sees an opportunity to deliver attractive risk-adjusted returns, even accounting for a standardised risk weighting methodology for credit risk RWAs. The Group believes that it is well-positioned to grow its specialist mortgages portfolio due to (i) its ability to accommodate a broad range of applications, (ii) its ability to scale up significantly on new business originations, (iii) its recently upgraded mortgage originations platform, (iv) its manual underwriting capability, which allows it to understand complex situations, and (v) the leadership of colleagues with deep experience in specialist mortgage lending.

The Group also sees an opportunity for the Commercial business to grow steadily, as the Group expands into the north of England, with the opening of 11 new stores currently planned to occur by the end of 2025 in communities and key urban areas which the Group has identified as having large local populations and a strong SME presence, such as Hull, Leeds, Newcastle, Manchester, Liverpool, and York.

The Group also has an existing unsecured lending platform with significant origination capabilities. At present, it believes that due to the macroeconomic environment and market conditions, risk-adjusted returns associated with growing this lending segment are less attractive than growth in the specialist mortgages and commercial lending opportunities described above. However, the Group will consider the options for this business over the longer term, including assessing a strategy to retain optionality to resume growth in originations if pricing and risk dynamics become more attractive in the future.

Funding of its growth in assets will be underpinned by the Group's core personal current account and business current account franchises, which continue to see stable growth in customer numbers. Growth in these core franchises will also be supported by product expansion; the Group has already invested significantly into the infrastructure required to expand the product set, and it plans to launch enhanced Cash ISAs and new instant access products to the market in the coming months, which the Board believes is appropriate as the rises in base rates have accelerated a shift to instant access products. Funding provided by the core personal current account and business current account franchises may also be supplemented by use of the fixed term deposit market as determined appropriate by management in order to accelerate growth.

The Directors believe that the Transactions as described above (excluding any impact from the potential Asset Sale) will put the Group in a strong position to accelerate earnings growth, and believe that it will allow the Group to deliver the following:

- *asset rotation towards specialist mortgages (with average LTVs assumed to be broadly in-line or below current profile) and commercial lending*: the Group expects a mid-single digit CAGR from 2024 to 2028, driven by a shift towards specialist mortgages and commercial lending;

- *overall deposit balances are expected to increase from the 2023 year-end position, with double-digit growth in 2024, followed by low to mid-single digit growth in 2025 and 2026*: driven by an increase in the Group's share of Instant Access and cash ISA products over time. Current account balances are still expected to grow over the medium term, notwithstanding the recent increase in deposit outflow rates in advance of the announcement of the Transactions;
- *NIM step-up approaching 3 per cent. in 2026*: the Group expects NIM to stabilise in 2024, achieving an exit rate that supports accretion through 2025 and 2026, as the benefits from asset repricing flow through;
- *cost reduction plan*: the Group launched a cost reduction plan in the fourth quarter of 2023, seeking cost savings of at least £30 million per year (with 75 per cent. of such cost savings being realised in 2024 and all cost savings being realised from 2025 onwards). The Group expects this cost reduction plan to result in a one-off restructuring charge in 2023 equal to 40 per cent. of the size of the estimated cost savings realised. The Group expects to see low single-digit operating cost growth year on year after the cost reduction plan is finalised as the Group benefits from a reduced cost base, as well as significant economies of scale. The Group expects that its cost to income ratio will continue to reduce year on year, and will be between 60 to 70 per cent. through 2027;
- *RoTE in excess of 9 per cent. in 2025 and low double-digit to mid-teens thereafter over the medium term*;
- *40 per cent. blended risk weight density (defined as total RWAs divided by total assets)*; and
- *Capital ratios*: illustrative *pro forma* 30 June 2023 CET1 ratio in excess of 13 per cent. and MREL ratio in excess of 21.5 per cent, demonstrating full compliance with minimum capital requirements, MREL and the Combined Buffer Requirement.

The Directors believe that, in addition to the Transactions, the potential Asset Sale would further enable the Group to accelerate earnings growth by improving capital ratios and achieving the benefit of asset repricing sooner, resulting in:

- low double-digit CAGR in total loan balances from 2024 to 2028, following a reduction in loan balances in 2023;
- steady growth in 2024 NIM supported by reinvesting proceeds of the Asset Sale into cash at higher yields;
- mid-single digit RoTE in 2024; and
- a further improvement to the illustrative *pro forma* 30 June 2023 CET1 ratio and MREL ratio, through reducing RWAs by approximately £1 billion (assuming an approximately £3 billion Asset Sale).

The Board has carefully considered and consulted with a number of the Company's leading Shareholders and holders of the Existing MREL Notes and the Existing Tier 2 Notes on the best way to structure the proposed Transactions. In deciding to structure the equity component of the Capital Raising by way of a Firm Placing, the Board sought to balance the dilution to Shareholders not participating in the Firm Placing with the benefits of announcing a fully committed transaction at 8 October 2023, ensuring the success of the Firm Placing. In deciding to structure the issuance of the New MREL Notes and the issuance of the New Tier 2 Notes according to their respective terms, the Board sought to underpin the financial stability of the Group with growth capital to support its continued progress, and in particular to ensure that the Group's regulatory capital is above the Combined Buffer Requirement.

***Rule 9 Waiver***

Spaldy Investments is the Company's largest shareholder and currently owns 15,723,914 Shares, which represented 9.11 per cent. of the issued share capital of the Company as at 27 October 2023. Following completion of the Firm Placing, Spaldy Investments will own 355,723,914 Shares, representing 52.88 per cent. of the issued share capital of the Company. The entire issued share capital of Spaldy Investments is held by Jaime Gilinski Bacal, who directly or indirectly owns shares exceeding 30 per cent. in a wider group of companies (the "**Gilinski Group**"). Dorita Gilinski, who is a Non-Executive Director, is the daughter of Jaime Gilinski Bacal.

The Company has agreed with the Panel that the following persons are acting in concert in relation to the Company: Spaldy Investments, certain entities within the Gilinski Group, Jaime Gilinski Bacal, Dorita Gilinski and their close relatives (as defined under the City Code) (together the "**Concert Party**"). Other than Spaldy Investments, no member of the Concert Party is interested, directly or indirectly, in Shares. Dorita Gilinski does not hold any Shares. See Part X of this document for further detail on the Directors' shareholdings in the Company.

The City Code applies to the Company. Under Rule 9 of the City Code, any person who acquires an interest in shares which, taken together with shares in which that person or any person acting in concert with that person is interested, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code is normally required to make an offer to all the remaining shareholders to acquire their shares. As Spaldy Investments' holdings would increase from 9.1 per cent. of the issued share capital of the Company to 52.88 per cent. as a consequence of the Firm Placing, in the absence of the Rule 9 Waiver the Concert Party would be required to make a mandatory offer to acquire the balance of Shares not held by it. The Panel has agreed to waive the obligation for the Concert Party to make such an offer, subject to the approval of Independent Shareholders of the Rule 9 Waiver and, accordingly, a resolution to approve the Rule 9 Waiver is included in the Notice of General Meeting set out at the end of this document. The Transactions are conditional on the Rule 9 Waiver being obtained.

**You should note that following completion of the Firm Placing, Spaldy Investments would hold Shares carrying more than 50 per cent. of the Company's voting rights. In those circumstances, normally no obligation to make a general offer to all holders of Shares under Rule 9 of the City Code would arise if Spaldy Investments were to purchase further Shares, although individual members of the Concert Party will not be able to increase their percentage interests in Shares through or between a threshold contained in Rule 9 of the City Code without Panel consent.**

Dorita Gilinski has not taken part in the decision to recommend the Rule 9 Waiver Resolution. These matters have been dealt with by the Independent Directors.

No member of the Concert Party, nor its nominees or representatives will vote on the Rule 9 Waiver Resolution at the General Meeting.

Further details on the Rule 9 Waiver Resolution are set out in paragraph 5 of this letter below.

## 3 Use of Proceeds

The Company intends to use the net proceeds raised from the Transactions to increase the capital resources of the Group and to support the growth of the Group by allowing it to benefit from its attractive strategic opportunity set. From a regulatory capital standpoint, the Transactions will allow the Company (on a consolidated basis) and Metro Bank (on a solo basis) to meet its minimum regulatory capital requirements, MREL requirement and the Combined Buffer Requirements in full. Therefore, the MDA restrictions will cease to apply. The *pro forma* CET1 ratio (on the basis of 30 June 2023 data but taking into account the effect of the Transactions and the increase of the Combined Buffer Requirement on 5 July 2023) would have been at least 13 per cent., which would have exceeded the *pro forma* CET1 requirement of 9.2 per cent. and Tier 1 requirement of 10.8 per cent. (including buffers), and the MREL ratio would have been 21.6 per cent., which would have exceeded the MREL requirement of 21.2 per cent. (including buffers). The net proceeds will be placed with the Bank of England.

## 4 The Firm Placing

On 8 October 2023, the Company announced that Firm Placees had committed to subscribe by way of a Firm Placing of 500,000,000 New Shares, at a price of 30 pence per New Share (the "**Issue Price**"), raising gross proceeds for the Company of £150 million (approximately £144 million after deduction of estimated fees, costs and expenses of £6 million). The New Shares will be issued credited as fully paid and will rank *pari passu* in all respects with each other and with all Existing Shares.

The Board is seeking the approval of Shareholders, by way of the Shareholder Resolutions proposed at the General Meeting to be held at 11:30 a.m. (London time) on 27 November 2023, to undertake the Firm Placing. If the approval of Shareholders to the Shareholder Resolutions (and, in the case of the Rule 9 Waiver resolution, the approval of the Independent Shareholders) at the General Meeting is not obtained, the Firm Placing will not proceed. If the Firm Placing does not proceed, none of the

other elements of the Transactions will proceed (as set out in, and in accordance with, their respective terms). No fees, costs, or expenses of the Firm Placing will be directly charged to Shareholders.

### 4.1 Issue Price

The Issue Price represents a 26.1 per cent. discount to the Closing Price of 40.60 pence on the Reference Date and a 33.7 per cent. discount to the closing price of the Shares on 6 October 2023, being the last date before the Company's announcement of 8 October 2023. The Issue Price (and the discount) has been set by the Board following their assessment of the prevailing market conditions and the demand for the New Shares. The Board believes that the Issue Price (including the discount) is appropriate in the circumstances.

### 4.2 Conditionality

In respect of the Transactions, all applicable prudential regulatory notifications have been made in respect of the Firm Placing, the New Tier 2 Notes issuance and the New MREL Notes issuance, and corresponding issuances from Metro Bank to the Company; and the following formal written permissions have been obtained:

- a modification direction in respect of Article 28(2) of the Own Funds and Eligible Liabilities Part of the PRA rulebook granted by the PRA on 6 November 2023 with effective date 3 November 2023;
- a formal written permission (pursuant to Articles 77/78 CRR) in respect of the Existing Tier 2 Notes reduction granted by the PRA on 6 November 2023 with effective date 3 November 2023; and
- confirmation dated 9 October 2023 that the PRA has granted approval for the change of control whereby each of Spaldy Investments Limited and Jaime Gilinski will be controllers of Metro Bank as described under Part XII of the FSMA in connection with the Firm Placing.

The Firm Placing is conditional, *inter alia*, upon:

(i) the Shareholder Resolutions having been passed by Shareholders (or, in the case of the Rule 9 Waiver Resolution, the resolution having been passed by the Independent Shareholders) at the General Meeting convened for the purposes of seeking approval to, *inter alia*, undertake the Firm Placing;

(ii) the Equity Commitment Letters having become unconditional in all respects (save for any condition relating to Admission) before Admission occurs;

(iii) the Debt Commitment Letters having become unconditional in all respects (save for any condition relating to Admission) before Admission occurs;

(iv) in respect of the Existing Tier 2 Notes, the passing of the written resolution, satisfaction of the eligibility condition, the implementation of the written resolution and satisfaction of the effectiveness conditions;

(v) in respect of the Existing MREL Notes, the passing of the written resolution, the satisfaction of the eligibility condition, the implementation of the written resolution and the satisfaction of the effectiveness conditions;

(vi) the Support Agreement not having been terminated; and

(vii) Admission having become effective.

The Company will work to co-ordinate satisfaction of the conditions before or shortly following the General Meeting, following which it will issue an announcement via the Regulatory News Service operated by the London Stock Exchange confirming satisfaction of all conditions, save for Admission, and such announcement shall specify the time for settlement and Admission.

If any of the conditions (including the issuance of the New MREL Notes and New Tier 2 Notes) are not satisfied or, if applicable, waived, then the Firm Placing will not take place.

## 5 The City Code and the Rule 9 Waiver Resolution

### 5.1 Background

Under Rule 9 of the City Code, any person who acquires an interest in shares (as defined in the City Code) which, taken together with any shares in which that person or any other person acting in concert with that person is interested, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, is normally required to make an offer to all the remaining shareholders to acquire their shares in the company. Such an offer would have to be made in cash and at the highest price paid for any interest in shares by that person or by any person acting in concert with it within the 12 months prior to the announcement of the offer.

As noted in paragraph 2 above, Spaldy Investments held 9.1 per cent. of the issued share capital of the Company as at 27 October 2023. Upon completion of the Firm Placing, Spaldy Investments will hold 52.88 per cent. of the issued share capital of the Company.

The Company has consulted with the Panel and the Panel has agreed to waive the obligation to make an offer that would otherwise arise under Rule 9 of the City Code as a result of the increase in Spaldy Investments' shareholding occurring as a result of its participation in the Firm Placing, subject to the approval of the Independent Shareholders. Accordingly, the Rule 9 Waiver Resolution is being proposed at the General Meeting and will be taken on a poll of Independent Shareholders. Representatives of Spaldy Investments may attend the General Meeting but no members of the Concert Party, nor any nominee or representative of them, will be entitled to vote on the Rule 9 Waiver Resolution.

No member of the Concert party will be restricted from making an offer for the Company following the approval of the Rule 9 Waiver Resolution by the Independent Shareholders at the General Meeting.

### 5.2 Intentions of Spaldy Investments

Spaldy Investments intends to continue to conduct the business of the Company in the same manner as it is currently conducted, taking into account the Group's cost reduction plan described in paragraph 2 above, and has no plans to redeploy the Group's fixed assets or to introduce any substantial changes in the business of the Group, the management of the Company (except for its ability to appoint up to three Non-Executive Directors at any time following Admission in accordance with the terms of the Relationship Agreement), the continued employment of its employees or their terms of employment. Further information on the Relationship Agreement is described in paragraph 11 of this letter below.

Spaldy Investments has confirmed to the Company that it has no intention to cause the Company to cease to maintain any of the trading facilities in respect of the Shares.

The Company does not currently have a research and development function and Spaldy Investments has no plans in this regard.

Spaldy Investments believes it is well placed to support the Company by leveraging the industry experience of Jaime Gilinski Bacal, the founder of Spaldy Investments, including by identifying possible efficiencies and improving cost structures to deliver increased shareholder value.

No statements in this paragraph 5.2 constitute "post-offer undertakings" for the purposes of Rule 19.5 of the City Code.

In considering the recommendation of the Firm Placing to Independent Shareholders, the Independent Directors have given due consideration to the assurances given by Spaldy Investments to employees within the Group. The Independent Directors welcome Spaldy Investments' intentions with respect to the future operations of the business and its employees, in particular, the intentions to observe the existing contractual and statutory employment rights of the employees and pension obligations (including existing agreed contributions into the Group's pension plans) and to support the balance of skills and functions of employees across the Group and the Company's strategic direction.

## 6 Importance of vote

**Your attention is drawn to the fact that all of the Shareholder Resolutions must be passed by Shareholders at the General Meeting in order for the Transactions to proceed.**

The Board believes that the Transactions underpin the financial stability of the Group and will provide growth capital to support the Group's continued progress. If the Transactions do not successfully complete, which will be the case if the Shareholder Resolutions are not passed, the Group could face a number of adverse consequences, including being placed into resolution.

The Company expects that failure to complete the Transactions would have an immediate material adverse effect on the Group's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements, as well as its ability to refinance its debts, and as a consequence, would increase the risk of resolution.

In particular, the Company and Metro Bank would continue to have insufficient Tier 1 capital and, if the Company was unable to refinance its Existing MREL Notes (which, given that the issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes are inter-conditional with the other elements of the Transactions, would be the case if any of the Transactions fail to complete), it would have insufficient MREL resources to meet its MREL requirement. The Company believes that if the Transactions are not successfully implemented:

- there would be limited, if any, investor demand for further debt capital issuances by the Company, and accordingly it would not be possible to refinance, and as a result to repay, the Existing MREL Notes when they cease to qualify as MREL in October 2024 and/or when they mature in October 2025; and
- liquidity risks (such as high deposit withdrawal rates) may materialise immediately in response to an announcement by the Company of the failure to implement the Transactions, which could accelerate the need for pre-resolution or resolution action as discussed below.

A description of the regulatory regime and the powers available to the PRA and the Bank of England is set out in Part III "*Supervision and Regulation – UK Regulation – Recovery and resolution – Banking Act 2009 and BRRD*". The Company cannot predict the regulatory response, or that of the equity and debt markets and holders of its securities or the disposition of other counterparties, including depositors, to a related capital or liquidity stress. However, the Company believes that the most likely outcomes of a failure to implement the Transactions include recovery options and early intervention measures, but more likely: (i) the exercise of PoNV powers; and / or (ii) resolution (through the use of one or more stabilisation powers, which may be in conjunction with the use of the PoNV powers, together with a sale of the Group to a third party). Whilst the Company believes that these are the most likely consequences of this scenario occurring, there can be no assurance as to the likely reaction of the PRA or the Bank of England or its timing, albeit action is expected to be swift.

***Initial actions***

If the Shareholder Resolutions are not passed or the Transactions are not successfully completed, the Company would expect to hold urgent discussions with the PRA and the Bank of England. It is impossible to predict the outcome of such discussions or the extent to which the regulatory authorities would impose institution-specific requirements on the Company or Metro Bank, as they are afforded a wide range of discretionary powers both under the prudential regulatory regime and FSMA ("business-as-usual" supervisory powers) and early intervention measures under the Special Resolution Regime ("**SRR**") (for further detail on the latter, see Part III "*Supervision and Regulation—Recovery and resolution—Banking Act 2009 and BRRD"*).

The Company believes that such circumstances would require regulatory actions other than business-as-usual supervisory powers. In the first instance, actions such as allowing Metro Bank to access the Bank of England's sterling monetary framework liquidity facilities would be taken, and taking early intervention measures such as requiring the Group to take specified actions (which may include (i) implementing more recovery actions under its recovery plan such as selling assets or further reducing loan offers; and/or (ii) making changes to the Board) would be contemplated, although the Company expects these actions would be insufficient in such circumstances. Instead, the Company expects that the PRA and the Bank of England would determine that one or both of the Company or Metro Bank has reached the PoNV and/or has met the resolution conditions (see below).

**Possible PRA and Bank of England Responses**

The following disclosure sets out the possible regulatory responses of the PRA and Bank of England to a failure of the Transactions in respect of the Company and/or Metro Bank, based on the regulatory

powers and options available to them under the UK recovery and resolution regime and the Banking Act in particular.

***Use of the PoNV Powers***

If the PRA and the Bank of England are satisfied that one or both of the Company or Metro Bank has reached the PoNV, which is a determination by reference to specific cases in the Banking Act, the Bank of England must (unless it places the Company and/or Metro Bank into resolution) make use of its PoNV powers to apply mandatory write-down or conversion to the own funds instruments of the Company and Metro Bank (as applicable), including the Shares and the Existing Tier 2 Notes and relevant internal liabilities issued by Metro Bank to the Company. PoNV powers could be used in conjunction with resolution powers, as further described below.

The PoNV powers involve writing down own funds instruments (and relevant internal liabilities) when Case 2 of Section 6A of the Banking Act applies or converting such instruments into equity capital as a crisis prevention measure. Unlike bail-in (as to which see below), the PoNV powers neither constitute a resolution tool, nor do they extend to the write-down or conversion of liabilities other than regulatory capital (and relevant internal liabilities e.g., internal MREL). It is possible that PoNV powers are exercised simultaneously in relation to both the Company (in respect of the Shares) and Metro Bank or at one of these two levels.

The PoNV powers can be applied either in conjunction with resolution powers (if the conditions for their use are met) or separately if the Company or Metro Bank would no longer be viable in the absence of a write down or conversion but should be restored to long term viability by the relevant write-down or conversion. The Banking Act provides that CET1 (i.e., the Shares) shall absorb losses first and the Bank of England has confirmed that the statutory hierarchy of the relevant instruments of the entity will be respected in resolution (as was the case with the use of PoNV powers in relation to AT1 and T2 instruments in a recent resolution). Accordingly, the Shares will be cancelled, transferred, or diluted first, with the Existing Tier 2 Notes written down or converted as required to meet the special resolution objectives, followed by internal MREL if necessary. PoNV powers cannot be used on the Company's Existing MREL Notes.

There are certain potential compensation provisions in the Banking Act in respect of the use of PoNV powers, but the "no creditor worse off" safeguard (as set out below) would not apply in relation to an application of the PoNV powers to own funds instruments and internal MREL in circumstances where resolution powers are not also exercised.

***Entry into formal resolution***

If, as the Company expected, early intervention measures and pre-resolution measures (such as the exercise of PoNV powers) are not, or are determined by the Bank of England and the PRA not to be, sufficient to stabilise the Company, placing the Company into formal resolution would be required (either in conjunction with the exercise of PoNV powers or as an alternative). The use of PoNV powers could be considered insufficient to stabilise the Group for a number of reasons including because a write-down of the Existing MREL Notes is required to be able to exercise the preferred stabilisation option (which is expected to be a sale of the Company or Metro Bank to a third party).

Whilst the Group's resolution strategy is a single point of entry bail-in strategy (i.e. it contemplates the use of a stabilisation option at the level of the Company), it is possible that both the Company and Metro Bank are placed into formal resolution at the same time, as discussed below. The Company and/or Metro Bank may only be placed into resolution if:

- the PRA has determined that the Company or Metro Bank (as applicable) is "failing or likely to fail" ("**FOLTF**") by reference to one or more specific conditions being met; and
- the Bank of England has determined that the other relevant resolution conditions have been met (including, broadly, that there is no other viable alternative to stabilise the Company and/or Metro Bank and that it is in the public interest to resolve the Company and/or Metro Bank).

If the PRA were to determine that the Company or Metro Bank was FOLTF, whether or not the other resolution conditions will be met is a question of fact for the Bank of England to determine, including whether any other recovery or pre-resolution actions would be sufficient to stabilise it or whether it would continue to be FOLTF thereafter. Based on Metro Bank's systemic importance (it is the tenth largest bank in the UK mostly offering retail banking services) and the low probability of finding another commercial alternative to recapitalise the Group if the Transactions were not to complete, the

Company considers it likely that all resolution conditions would be deemed met if the Company and/ or Metro Bank was determined by regulators to be FOLTF.

***Bail-in***

If the Bank of England placed the Company or Metro Bank into formal resolution, five main stabilisation options i.e., resolution tools, would be available to the Bank of England (see Part III "*Supervision and Regulation—Recovery and resolution—Banking Act 2009 and BRRD*"). In respect of the Group, the Bank of England has stated that the preferred resolution strategy is a bail-in strategy with a single point of entry at the level of the Company. However, the Company expects that the Bank of England may also exercise the PoNV powers or bail-in powers at the level of Metro Bank in parallel or in isolation (in which case the Company's holdings in Metro Bank would be diluted).

If bail-in was used (either on its own or in combination with other resolution powers), it would result in the cancellation, transfer or dilution of the Shares and likely the write down or conversion of (as applicable) Metro Bank's and the Company's other own funds, including the Existing Tier 2 Notes, then the Existing MREL Notes, and, if necessary, other bail-inable liabilities in order to recapitalise the Group and allow for Metro Bank to remain operational throughout the resolution. The actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, as all available options could be considered by the Bank of England.

The SRR requires the bail-in tool to be exercised in accordance with the insolvency ranking of creditors. The order of bail-in is predetermined in the Banking Act with, broadly, CET1 instruments (such as the Shares), being bailed in first (by way of cancellation, dilution, or transfer), followed by AT1 (of which there is none), then Tier 2 (such as the Existing Tier 2 Notes) and then MREL (such as the Existing MREL Notes). Following the write-down or conversion of all such capital instruments and MREL, the Bank of England would (if required) exercise the bail-in tool on other unsecured liabilities in accordance with their insolvency ranking. The UK has implemented preferential treatment of certain eligible deposits from natural persons and micro, small and medium-sized enterprises above the specified deposit cover, as well as certain amendments relating to the bail-in order of liabilities of financial institutions, as further described in Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*". Secured creditors, depositors up to the FSCS cover limit and certain other excluded claims will not be subject to bail-in. Consequently, it is anticipated that any such use of the bail-in tool by the Bank of England (either on its own or in combination with other resolution powers) would have a material adverse effect on Shareholders, as their claims would be cancelled, transferred, or severely diluted (if not already under the PoNV powers) for the purposes of stabilisation and loss absorption.

***Private sector purchase tool or other stabilisation options***

Although the Bank of England's preferred resolution strategy for the Group is bail-in, the Bank of England is afforded flexibility to change a group's resolution strategy, including during a resolution weekend, depending on the circumstances and the expected market impact of resolution action. In particular, per paragraph 4.2 of the MREL SoP, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objectives. If it would better meet the resolution objectives in the circumstances at the time of failure, the Bank of England could opt for the sale of all or part of the Group to a private purchaser either as an alternative to a bail-in or in conjunction with use of the bail-in power.

The Company considers this to be a probable course of resolution action in respect of the Company or Metro Bank, if the resolution conditions are met in relation thereto. This could be effected by the use of the private purchaser tool under which the Bank of England would make a resolution order by way of a share transfer or asset transfer instrument to transfer the Group as a whole or in part to a private entity. A share transfer to a private purchaser could have a similar impact on Shareholders as bail-in (as they would lose all rights and entitlements on the Shares, probably with limited or no consideration) and the Company expects it would be combined with bail-in or PoNV powers in order to achieve the write-down of the Company's and / or Metro Bank's debt capital instruments. Whilst PoNV powers would not affect the Existing MREL Notes, the private purchaser tool could be used in conjunction with the bail-in tool so as to write-down the Existing MREL Notes.

It is at least technically possible that bail-in or PoNV powers and the private purchaser tool could alternatively be applied in respect of Metro Bank only, leaving the Company with no assets and

unable to meet its liabilities under the Existing MREL Notes. In such circumstances, the Company would be highly likely to enter insolvency proceedings and the Shares would likely have no value.

For further detail on the stabilisation powers (i.e., resolution tools) under the SRR, see Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*".

***Other resolution powers***

There is a wide toolkit of ancillary resolution powers to be used in conjunction with the main stabilisation option – for example, the Bank of England may suspend or discontinue the listing of the Shares, the Existing Tier 2 Notes and the Existing MREL Notes and may suspend third parties' termination and security enforcement rights against the Company or Metro Bank during the resolution weekend. The terms of the Shares could also be altered and payments could be suspended for a certain period. Rights of set-off could, subject to safeguards, also be affected. There can be no assurance that the use of any resolution tools or powers by the resolution authority or the manner in which they are exercised will not materially adversely affect Shareholders as holders of the Shares, the market value of the Shares and/or the Company's ability to satisfy any liabilities or obligations it has to Shareholders.

***No creditor worse off***

The SRR requires the resolution tools (stabilisation options) to be exercised in accordance with the general principle that no creditor shall incur greater losses than would have been incurred if the bank had been wound up under normal insolvency proceedings (the "no creditor worse off" principle).

The "no creditor worse off" principle means that, in certain circumstances, a Shareholder or creditor of the Company or Metro Bank may have a right to compensation if the treatment that they receive as a result of the resolution authority exercising a stabilisation option is less favourable than the treatment that they would have received under normal insolvency proceedings. Compensation payments, if any, may however be considerably later than contractual payment dates (in the same way that there may be a delay in recovering value in the event of insolvency).

***Importance of vote***

In the event that the Transactions do not complete, there can be no assurance that the Company would be able to implement any mitigating actions in the time available, or that any such mitigating actions would be successful. Shareholders would be at risk of losing all or a substantial amount of their investment in such circumstances. Accordingly, the Board believes that the successful completion of the Transactions, which is predicated on the passing of the Shareholder Resolutions, is in the best interests of Shareholders as a whole.

**Accordingly, the Board's unanimous recommendation is that Shareholders vote in favour of Shareholder Resolutions 1, 2 and 3, and the Independent Directors' recommendation is that the Independent Shareholders vote in favour of the Rule 9 Waiver Resolution, which are to be proposed at the General Meeting which has been convened for 11:30 a.m. on 27 November 2023, to protect your shareholder value. Unless all of the Shareholder Resolutions are passed the Company cannot implement the Transactions. Your vote is accordingly critical.**

## 7 Employee Share Schemes

In accordance with the rules of the Long Term Incentive Plan and the Deferred Variable Reward Plan, the Directors may consider making adjustments to the terms of outstanding awards granted since March 2020 (such as the number of shares under award and award exercise price (if any)) to take account of the Firm Placing. The Directors may also review, prior to the dates of vesting, the impact of the Firm Placing on the ability to meet any existing performance conditions under the Long Term Incentive Plan and, where relevant and as permitted by the Long Term Incentive Plan rules, may adjust applicable performance conditions and targets.

## 8 Working Capital

In the opinion of the Company, the working capital available to the Group is not sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.

On 5 July 2023, the countercyclical buffer increased by 1 per cent., leading to an increase in the Combined Buffer Requirement (which comprises the countercyclical buffer of 2 per cent. of RWAs and the capital conservation buffer which is 2.5 per cent. of RWAs) applicable to the Group. As a result, the Group no longer has sufficient CET1 resources to meet its Combined Buffer Requirement in full, and the Group is therefore subject to the MDA restrictions (which are formulaic restrictions to certain payments including dividend payments and variable remuneration). Consequently, without the net proceeds of the Transactions, the Group will continue to have insufficient CET1 resources to meet its Combined Buffer Requirement in full, and will therefore remain subject to the MDA restrictions.

The Company is unable to take into account the net proceeds of the Transactions in the working capital statement set out above as the net proceeds of the Transactions are conditional upon, among other things: (i) the passing and implementation of the written resolutions in respect of the Existing Tier 2 Notes and the Existing MREL Notes circulated by the Company and Metro Bank on 7 November 2023; and (ii) the Shareholder Resolutions having been passed at the General Meeting.

However, the Company is of the opinion that, after taking into account the net proceeds of the Transactions, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.

The net proceeds of the Transactions are comprised of: (i) the net proceeds from the Firm Placing, which will be approximately £144 million (net of fees, costs and expenses of approximately £6 million (including VAT)); (ii) the net proceeds from the issuance of the Cash New MREL Notes, which will be approximately £168 million (net of fees, costs and expenses of approximately £7 million (including VAT); and (iii) the net impact from the restructure of the Tier 2 Notes and Non-Cash New MREL Notes, which will be approximately £61 million. For further details on the effect of the Transactions on the Group, see Part VII "*Unaudited Pro Forma Financial Information*" of this document.

The Company has taken significant steps to mitigate the risk of the conditions not being satisfied, including the entry into of the Support Agreement, which sets out the terms of support by the Consenting Noteholders for the Transactions, including their commitment to vote in favour of the necessary written resolutions circulated by the Company and Metro Bank to the holders of the Existing MREL Notes and the Existing Tier 2 Notes on 7 November 2023. On 11 October 2023, the Company announced that following further support received, it had achieved support of more than 75 per cent. by nominal (par) value of each of the holders of the Existing MREL Notes and the Existing Tier 2 Notes acceding to the Support Agreement, being the threshold necessary to approve the written resolutions referred to above.

The Company has also secured commitments from the following Shareholders to vote in favour of the Shareholder Resolutions at the General Meeting in respect of their entire beneficial holdings pursuant to the Equity Commitment Letters. Spaldy Investments is not an Independent Shareholder and will not be able to vote on the Rule 9 Waiver Resolution.

| **Name of Shareholder** | **Number of Shares as at 27 October 2023** |
|---|---:|
| Spaldy Investments | 15,723,914 |
| Spruce House Investment Management | 15,500,000 |
| Conifer Capital Management | 10,214,789 |
| Davis Selected Advisors | 8,136,346 |
| Sretaw | 400,000 |
| Toscafund | 0 |
| Kernow Asset Management | 5,494,596 |
| 683 Capital Partners | 2,692,068 |
| Atlas Merchant Capital | 0 |
| Mr Thomas N Tryforos | 1,404,390 |
| Grand Street Capital | 173,937 |

Your attention is drawn to the working capital statement in paragraph 28 of Part X of this document.

## 9 Current Trading

*The preliminary financial data for the third quarter of 2023 included in this document has been prepared by, and is the responsibility of, the Company's management. PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled, nor applied agreed-upon procedures with respect to the preliminary financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.*

On 7 November 2023, the Company announced in its 2023 third quarter trading update that as at 30 September 2023, the Group's assets were £21,606 million (30 June 2023: £21,747 million), its loans and advances to customers were £12,513 million (30 June 2023: £12,572 million), its deposits from customers were £15,612 million (30 June 2023: £15,529 million) and its loan to deposit ratio was 80 per cent. (30 June 2023: 81 per cent.).

As announced on 8 October 2023, following the end of the third quarter, the Group noted an increase in deposit outflow rates in advance of the announcement of the Transactions. Since the announcement, daily flows have returned to more normal ranges.

The third quarter delivered continued momentum in personal and business current account growth and customer acquisition as well as a modest statutory profit after tax. Lending reflected continued controlled asset origination and, as such, capital resources were broadly flat relative to 30 June 2023 levels.

## 10 Equity Commitment Letters

Shareholders holding 59.7 million Shares in the Company, representing 34.6 per cent. of the Existing Shares as at 27 October 2023, have entered into Equity Commitment Letters, which contain commitments to vote in favour of the Shareholder Resolutions.

Of those Shareholders, Spaldy Investments, which holds 15,723,914 Shares in the Company, representing 9.11 per cent. of the Existing Shares as at 27 October 2023, will not be an Independent Shareholder for the purposes of the Rule 9 Waiver Resolution and, accordingly, will not be entitled to vote on the Rule 9 Waiver Resolution.

As such, the Company has received commitments to vote in favour of the Rule 9 Waiver Resolution from Shareholders holding 44.0 million Shares, representing 25.5 per cent. of the Existing Shares as at 27 October 2023.

Further details of the voting commitments contained in the Equity Commitment Letters are set out in paragraph 9 of Part X of this document.

## 11 Relationship Agreement

On the date of this document, the Company, Spaldy Investments and Jaime Gilinski Bacal have entered into the Relationship Agreement, which will come into force on Admission. The principal purpose of the Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of the Controlling Shareholder Group and their respective associates. For further details on the Relationship Agreement, see paragraph 23.7 of Part X.

## 12 Risk Factors

This document contains a detailed discussion of risks associated with a shareholding in the Company. You should fully and carefully consider the risks set out in the section of this document headed "*Risk Factors*" when considering how to vote in connection with the Shareholder Resolutions.

## 13 Further Information

This letter is not, and does not purport to be, a summary of this document and therefore should not be regarded as a substitute for reading this document. You should read the whole of this document, the documents incorporated herein by reference and not rely solely on the information set out in this section "*Letter from the Chair of Metro Bank Holdings PLC*" of this document.

The results of the votes cast at the General Meeting will be announced as soon as possible once known through a Regulatory Information Service. It is expected that this will be on 27 November 2023.

## 14 Actions to be taken in respect of the General Meeting

This document includes a Notice convening a General Meeting to be held at 11:30 a.m. (London time) on 27 November 2023 at One Southampton Row, London WC1B 5HA. The purpose of the General Meeting is to consider and, if thought fit, to pass the Shareholder Resolutions which seek approval to undertake the Firm Placing.

In summary, the Shareholder Resolutions (which comprise two ordinary resolutions, one special resolution and one ordinary resolution of the Independent Shareholders) seek the approval of Shareholders:

(i) to the terms (including as to the discount) of the Firm Placing as set out in this document, and to direct the Directors to exercise all powers to cause the Company to implement the Firm Placing;

(ii) to grant the Board authority to allot New Shares for cash for the purposes of the Firm Placing pursuant to section 551 of the Companies Act;

(iii) to grant the Board authority to allot the New Shares to be issued under the authority to allot requested under the resolution described in paragraph (ii) above, which shall represent 289.56 per cent. of the Shares in issue as at the Reference Date, as if the pre-emption rights in section 561 of the Companies Act did not apply; and

(iv) to approve the Rule 9 Waiver as required by the City Code, in respect of which only Independent Shareholders will be entitled to vote.

Please note that this is not the full text of the Shareholder Resolutions and you should read this section in conjunction with the Notice of General Meeting set out at the end of this document.

If you are not able to attend the General Meeting, please instead complete and sign the Form of Proxy accompanying this document, in accordance with the instructions printed on them, and return them to the Company's Registrar, Equiniti Limited, at the return address printed on the back of the relevant Form of Proxy or using the pre-paid envelope provided (for use in the UK only) as soon as possible, and in any event by no later than 11:30 a.m. (London time) on 23 November 2023. Completion and return of the Form of Proxy will not prevent Shareholders from attending and voting at the meeting should they so wish.

You can also appoint your proxy electronically at Equiniti Limited's website, www.sharevote.co.uk by no later than 11:30 a.m. (London time) on 23 November 2023, (or, in the case of any adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting, excluding any part of such 48 hour period falling on a day that is not a Business Day).

If you are registered with www.shareview.co.uk, you can log on and appoint a proxy through that service no later than 11:30 a.m. (London time) on 23 November 2023 (or, in the case of any adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting, excluding any part of such 48 hour period falling on a day that is not a Business Day).

If you hold your Shares in uncertificated form through CREST, you may appoint a proxy using the CREST electronic proxy appointment service in accordance with the procedures set out in the CREST manual. A proxy appointment submitted via CREST (under CREST participant ID RA19) must be received by Equiniti Limited, no later than 11:30 a.m. (London time) on 23 November 2023, (or, in the case of any adjournment, no later than 48 hours before the time fixed for the holding of the adjourned meeting, excluding any part of such 48 hour period falling on a day that is not a Business Day).

Unless the Form of Proxy (or the electronic appointment of a proxy) or CREST Proxy Instruction is received by the relevant date and time specified above, it will be invalid.

The completion and posting of the Form of Proxy (or the electronic appointment of a proxy) or completing and transmitting a CREST Proxy Instruction will not preclude you from attending and voting in person at the General Meeting if you wish to do so.

## 15 Intentions of the Directors

The Independent Directors have confirmed their intention to vote in favour of the Rule 9 Waiver Resolution in respect of their own beneficial holdings, which amount in aggregate to 2,803,788 Shares

and represent approximately 1.62 per cent. of the Company's issued ordinary share capital as at 27 October 2023.

Each of the Directors intends to vote in favour of each other Shareholder Resolution in respect of their own beneficial holdings, which amount in aggregate to 2,803,788 Shares and represent approximately 1.62 per cent. of the Company's issued ordinary share capital as at 27 October 2023.

In addition, Daniel Frumkin and James Hopkinson have each committed to invest in the Company, as part of the Firm Placing, in the manner described in paragraph 16 below.

**16 Related party transactions**

Daniel Frumkin and James Hopkinson have committed to participate in the Firm Placing on the same terms as the other investors in the Firm Placing for an aggregate amount of £1.81 million (comprising £1.75 million from Daniel Frumkin and £0.06 million from James Hopkinson).

By virtue of them being Directors of the Company, each of Daniel Frumkin and James Hopkinson is a related party of the Company for the purposes of the Listing Rules.

Due to the size of his participation in the Firm Placing, James Hopkinson's subscription for New Shares under the Firm Placing qualifies as a small related party transaction for the purposes of Listing Rule 11.1.6R(1). Shareholders should be aware that under the Listing Rules, if a transaction with a related party is sufficiently small in size, it is not necessary to obtain the approval of shareholders in respect of it or obtain any confirmation from a sponsor that the transaction is fair and reasonable.

Due to the size of his participation in the Firm Placing, Daniel Frumkin's subscription for New Shares under the Firm Placing constitutes a smaller related party transaction for the purposes of Listing Rule 11.1.10R. In accordance with the Listing Rules, the Company has received a written confirmation from its sponsor, RBC, that the terms of Daniel Frumkin's participation in the Firm Placing are fair and reasonable as far as the shareholders of the Company are concerned. RBC's confirmation was given to the Company prior to Daniel Frumkin committing to participate in the Firm Placing, in accordance with the Listing Rules.

**17 Recommendation**

The Transactions and the Shareholder Resolutions are, in the Board's opinion, in the best interests of the Shareholders as a whole. The Board unanimously recommends that Shareholders vote in favour of Shareholder Resolutions 1, 2 and 3, as the Directors intend to do in respect of their own beneficial holdings, which amount in aggregate to 2,803,788 Shares and represent approximately 1.62 per cent. of the Company's issued ordinary share capital as at 27 October 2023.

The Board, which has been so advised by RBC, considers the Transactions, the Rule 9 Waiver Resolution, the controlling position which it will create and the effect which it will have on the Shareholders generally to be fair and reasonable. The Independent Directors unanimously recommend that Independent Shareholders vote in favour of the Rule 9 Waiver Resolution. In providing advice to the Board, RBC has taken into account the Board's commercial assessments. The Independent Directors have confirmed their intention to vote in favour of the Rule 9 Waiver Resolution in respect of their own beneficial holdings, which amount in aggregate to 2,803,788 Shares and represent approximately 1.62 per cent. of the Company's issued ordinary share capital as at 27 October 2023.

Yours faithfully

**Robert Sharpe**
*Chair of Metro Bank Holdings PLC*

# PART II

# INFORMATION ABOUT THE GROUP

*Shareholders should read this Part II in conjunction with the more detailed information contained in this document, including the financial and other information in Part IV and Part V of this document. Where stated, financial information in this Part II has been extracted or derived from Part V of this document.*

*The following discussion of the Group's business contains forward-looking statements that reflect the current view of the Directors and involve risks and uncertainties. See "Risk Factors" and "Important Information—Cautionary Note Regarding Forward-Looking Statements" for a discussion of important factors that could cause the Group's actual results to differ materially from the forward-looking statements contained herein.*

**Overview**

Metro Bank was founded in 2010 as the first full-service, independent, new high street bank to open in the UK in more than 150 years. The Group attracts core deposits through its service-led community banking model, with an emphasis on its SME franchise.

The Group has established a strategically located network of 76 stores (aka branches) in key conurbations across England and Wales, with 2.8 million customer accounts, £15,529 million in deposits from customers and £12,572 million of loans and advances to customers as at 30 June 2023. The Group's stores and contact centres are open seven days a week, early until late, alongside online and mobile banking, all designed to provide excellent customer service.

The Group's success in delivering an outstanding customer experience is best evidenced by the results of the CMA Service Quality surveys, in which the Group consistently ranks highly for overall services and for service in branches. In the latest results, published in August 2023, 67 per cent. of personal current account customers and 63 per cent. of business customers were likely to recommend the Group's services.

The Group's emphasis on delivery at the point-of-sale means that new-to-bank customers leave a store with a fully functioning current account (including access to telephony, internet and mobile banking, with customers assisted in downloading the *Metro Bank* mobile application in store at the time of application) and an activated contactless debit card printed in store, for which they set their own PIN, thus requiring no repeat store visits or mailings to complete their account opening process. In addition, in 2022, 29 per cent. of the Group's new retail and SME customers used digital channels to open their first account, thereby allowing access to mobile and online banking services. Furthermore, customers have access to UK-based contact centres staffed by Group colleagues that utilise real-time, skill-based routing for customer calls.

The Group has also continued to invest in its "back office" infrastructure, enhancing operational performance and resilience. In addition, the Group has robust cybersecurity controls, including web application firewalls to protect its external websites, malware detection tools to protect data, and a 24/7 managed security service to monitor its IT infrastructure.

The Group is primarily funded by deposits from its customers, drawings from the Bank of England's TFSME scheme, debt securities in issue and capital provided by shareholders. As at 30 June 2023, the Group had total assets and total liabilities of £21,747 million and £20,777 million, respectively (31 December 2022, £22,119 million and £21,163 million; 31 December 2021, £22,587 million and £21,552 million; 31 December 2020, £22,579 million and £21,290 million).

**History and development**

Metro Bank was founded in 2010. It was established with the belief that great companies and brands are built by creating "FANS", not simply "customers".

Selected key milestones in the Group's recent history are set out below:

2016: Completed £400 million private placement and premium listing on the London Stock Exchange. Named "Most Trusted Financial Provider" by Moneywise. Customer accounts exceed 900,000.

2017: Opened its one millionth customer account and exceeded 1.2 million accounts by the end of 2017. Again named "Most Trusted Financial Provider" by Moneywise.

2018: Deposit balances grew to £15.7 billion and lending to £14.2 billion as at 31 December 2018. Continued investment in technology with the launch of online current account and opened its 65$^{th}$

store in Ashford, Kent. Customer accounts exceeded 1.6 million by 31 December. Named "Best All Round Personal Finance Provider" by Moneywise and "Best Digital Onboarding Strategy" by Retail Banker International.

2019: First for overall quality of service for personal current account customers in CMA Service Quality surveys and second in service for business customers. Named as one of Glassdoor's "2019 Top 50 Places to Work" (and the highest rated bank on the list). Awarded the largest C&I grant (£120 million), designed to improve banking capabilities to serve SME customers.

2020: Daniel Frumkin is appointed as CEO. Launch strategic priorities with a clear plan to return the Group to sustainable profitability built around a community banking model. Granted first loans under the Government-backed lending schemes. Acquired Retail Money Market LTD ("RateSetter"). Named the #1 high street bank for service for the sixth time in a row, and Bank of the Year at the Money Age Awards.

2021: Entered the insurance market by providing SME business insurance and pet insurances. Rationalised contact centre sites. Launched the Group's first ever SME-focused brand and marketing campaign. Settled with the PRA in respect of its investigation into regulatory reporting. Set net zero carbon target by 2030.

2022: Successful completion of transformation plan. Launched motor finance product under the *RateSetter* brand, broadening the Group's consumer lending capabilities.

2023: Confirmed intention to open 11 new stores in the North of England by the end of 2025. Completed an exercise to create Metro Bank Holdings plc as a new holding company on top of the former listed entity, Metro Bank plc, in accordance with the Bank of England's resolution plan and to create a single point of entry "bail-in". Entered an exclusive partnership with the ECB as inaugural Champion Partner of women's and girls' cricket.

**Strengths**

Adopting a growth-focused and retail-focused approach to banking, the Group creates "FANS" through its service-led culture and focus on the delivery of simple and fair banking products across multiple channels. The Group has built a completely new and trusted consumer brand since Metro Bank was founded in 2010, with the platform and management in place to continue to expand its share of the UK retail and commercial banking market, including the UK SME market.

The Directors believe the key strengths of the Group are:

**A growth-focused and retail-focused approach to banking; successfully creating "FANS" through its service-led culture;**

The Group's service-led culture cultivates the provision of superior customer service, with the goal of transforming customers into long-term FANS. FANS are customers created through delivering exceptional customer service and who then champion the Group by actively recommending it to friends and family.

By focusing on customer service and providing simple, transparent, value-for-money products, the Group has developed a brand and reputation that has grown through recommendations and public recognition from industry, consumer advocacy and other community groups. For example, Metro Bank has been ranked first for overall quality of service for current account customers in the CMA Service Quality Survey for the eleventh time. In 2022, it was also awarded Bank Mortgage Provider of the Year at the MoneyAge Mortgage Awards; and the 'Treating Customers Fairly' Champion award for the RateSetter team at the British Bank Awards, as voted by customers. In 2023, the Group was recognized at the Mortgage Strategy Awards in the British Large Mortgage Loan Lender category, and it also received a 'Best of 2023' award from Forbes Advisor in the British Business Credit Card category.

The Group's customer-centric culture enables it to provide a differentiated service and convenience, which the Directors believe is comparable to that of some of the leading brands in retail. The Group's stores, as the core of its integrated distribution capabilities, are designed to support its customer-centric culture, promote its brand proposition and drive customer engagement. The Group offers services through its digital channels on a 24/7 basis. The Group saw 1.6 million counter transactions undertaken during weekends and before 9 a.m. or after 3 p.m. on weekdays in 2022, and a 50 per cent. increase in accounts opened during these hours in the six months ended 30 June 2023 as compared to in the six months ended 30 June 2022. By making customers' lives easier, the Group seeks to create "FANS for life", building long-term relationships and brand loyalty.

Community banking via the store network is integral to this and will remain a core component of the Group's model and service offering. The Group has 76 stores and currently plans to open 11 more stores by the end of 2025 with particular focus on expansion in the North of England, where Metro has historically been less present, in order to deliver on commitments under the C&I Fund grant. In deciding where to build a new store, management consider where the Group can reach the most people so that the Group can continue to offer convenient banking at a time that suits FANS. The newest Metro Bank store opened in Leicester at the start of 2022 and is performing well (with over 5,400 Personal and Business accounts opened and £38 million core deposits as at 30 June 2023).

The Group seeks to build long-lasting and personal relationships with customers and communities. Its colleagues are highly motivated and highly engaged, and the Group continues to focus on developing its service-led culture. In 2022, Metro Bank was pleased to be voted in the top 10 of the UK's Most Loved Workplaces as well as being named a top 10 inclusive company at the British LGBT Awards. In 2022, the Group supported colleagues through the increasing cost of living by providing a 2.75 per cent. salary increase to over 90 per cent. of colleagues in the second half the year, in addition to an average salary increase of 5 per cent. The Group continues to explore opportunities to deploy increased automation to help free up colleague time and allow them to focus on what they do best – creating FANS.

The Group's customer-centric culture is reinforced by its recruitment and training, and the Group is committed to hiring colleagues with the right attitude, especially in customer facing roles, and then training for skills as needed. In 2022, the Group launched its diversity and inclusion strategy to boost its culture and positively differentiate its colleague experience. The Group safeguards its culture by enrolling every new colleague in the cultural induction training programme "Visions", so new colleagues can see and live the Group's culture at the start of their careers with the Group. The Visions event is followed by three to six weeks of service and skills training and then up to nine months follow-on development and training for colleagues in entry level customer service roles, including professional banking qualifications. Through (i) regular colleague reviews based on balanced metrics focused around customer service and risk rather than sales, (ii) internal and professional training qualifications, and (iii) a share-option scheme, colleagues are nurtured and rewarded as custodians of the Group's culture and business. Accordingly, Metro Bank colleagues are highly motivated to deliver superior customer service.

The Group channels feedback from its Voice of the Customer surveys back into its product and service development processes, ensuring it meets customer needs. New features launched in 2022 included additional information on credit scores and ways customers can improve their score, improved digital customer self-service (for example, to change a registered email address or activate a new bank card), and extra support when logging into online banking.

Using stores as a key part of the tangible gateway to customer engagement, the Group has further enhanced its brand recognition through active engagement with local communities, including by having at least one local business manager in every store. The Group interacts with local business and residents by hosting events in-store, holding 177 events at stores in 2022, and delivered its Money Zone financial education course to 2,460 schoolchildren in 2022. The Group's distinct culture, focus on customer service and growing brand have driven customer accounts growth from 275,000 at December 2013 to 2.8 million at 30 June 2023.

Since April 2023, the Group has been progressively rolling out a new appointment booking system called Mwelcome across all of its stores. Designed to help customers see someone as quickly as possible in a store without the need for them to wait for an extended period, this is already helping to improve the experience the Group can offer and help it to create even more FANS.

The Group continues to build its market share in SME banking, and in the six months ended 30 June 2023, the Group opened 23,000 new Business Current Accounts and had 457 Commercial accounts that switched from another bank to Metro Bank.

**Differentiated and integrated customer proposition providing tangible and innovative delivery of retail and commercial banking services at point-of-sale;**

The Group provides a differentiated level of convenience for customers through its integrated customer experience between in-store, application-based, online and telephonic banking services. The Group puts control with its customers to use the channel of their choice at a time of their convenience, at any point in the customer journey.

***Stores***

The Group delivers its tangible customer service proposition through its network of strategically located stores. Modelled on contemporary retail outlets, the Group's stores are situated on selected high-street locations to maximise customer convenience and engagement. In addition, the Group's stores are open seven days a week with longer hours than competitors (in general, 8:30 a.m. to 6:00 p.m. Monday to Saturday and 11:00 a.m. to 5:00 p.m. on Sundays). The Group has purposefully designed its stores to create a welcoming environment and provide timely customer service at peak times. The Group's innovative straight through and real-time processing allows new and existing customers to open an account and receive a new or replacement card and PIN number at the point-of-sale with no need for second day follow-up. With free wireless internet in store, the Group's customers are also able to set up their mobile and online banking before leaving the store on the day of opening their account.

***Digital channels***

The Group provides a wide range of online banking services to customers, and has continued to expand the range of products it offers digitally in order to meet customers' needs. For example, in March 2022 the Group's new enhanced business overdraft product was launched with a fully digital journey and quickly became popular with business customers. It takes less than 30 minutes to complete an enhanced business overdraft application, receive a credit decision and provide funds in cases of straight through processing approvals. Customers have the choice to apply directly via the Mobile Application, in Store or via telephony with the support of their Local Business Manager. Since public launch in March 2022, 3,434 of the Group's business accounts have enrolled and taken up an enhanced business overdraft, with a combined overdraft limit of £59.5 million as at 31 October 2023. Over 90 per cent. of approvals have been granted in a fully automated manner.

Mobile banking is also a key part of the Group's integrated customer experience distribution capability, with 1.1 million unique users of the *Metro Bank* mobile application as at 30 June 2023, and customers who use the application logging in an average of 21 times per month in the first six months of 2023.

The Group is focused on investing in high quality digital services to complement its store network. As customers' digital expectations evolve, the Group will continue to invest in and refine its digital customer services offering. In 2022, the Group invested in digital channels by upgrading its online banking platform and enhancing self-serve options online and via the mobile application. The Group also introduced QR codes to the personal account online journey, so that FANS can pass the Group's identification and verification requirements on their smartphone. The Group introduced a new Products and Services Hub in the mobile application to show customers all the products the Group offers. Furthermore, customers can now search and filter transactions, and there is a duplicate payee pop-up so customers know if they are adding a payee who has already been added their account.

***Contact Centres***

The Group's customer network is supported by contact centres with colleagues to provide assistance with banking queries and services. The contact centres are open from 8:00 a.m. to 8:00 p.m. from Monday to Saturday, and from 8:00 a.m. to 6:00 p.m. on Sundays. The Group's contact centre operations are across three main sites in Bristol, Slough and Ilford. In 2022, the contact centres served approximately 2 million customer calls and handled approximately 10,500 messages across Twitter, Facebook and Instagram.

***Social media customer interaction***

The Group actively uses social media as a channel for customer engagement. For example, Twitter has become the principal channel for some customers to communicate with the Group. The Group also monitors sentiment on social media directed at both the Group and its competitors, to inform its own differentiated customer proposition and service strategy.

**Clear focus on core retail and business banking activities with simple products and services supported by innovative business partnerships**

The Group provides simple products, supported by a differentiated service and convenience-led proposition at points of sale across every channel. For example, the Group offers one retail current account product and one cash account product, both of which can be opened in less than eight minutes online. Although incumbent high-street banks in the UK typically offer multiple current account products, these can take days or weeks to open.

The Group further differentiates its product offering by providing personalised service to its Retail group customers. For example, while all Metro Bank retail mortgage loans are initially assessed by automated underwriting software, each retail mortgage application also currently undergoes an element of manual (i.e., human) underwriting, with a view to providing its customers with the most suitable loan based on an analysis of their personal circumstances.

In 2023, the Group expects to originate approximately £1.4 billion in new mortgages, noting that volumes have been purposely constrained to manage capital. The Directors believe that the Group can scale up to approximately £3 billion in gross originations per year without any significant increase in operating capacity from where it stands today.

The Group's commercial customers (including SMEs) benefit from the same simple and tailored approach. The Group can deliver a one-day account opening experience for accounts that is complemented by tailored product offerings. Simple cash management products act as a gateway aimed at creating long-term customer relationships that allow the Group to fulfil a customer's banking needs across a full suite of transactional products, including business current accounts, savings accounts and term lending. As at 30 June 2023, 51 per cent. of the Group's customer deposits were from commercial customers including SMEs.

The Group is particularly focused on the SME market, which management continue to believe remains underserved. SMEs receive support on request from local business managers, who can be accessed in every Metro Bank store, as well as industry credit specialists.

The Group partners with local-area professionals, such as lawyers and accountants, in order to build relationships within communities and provide banking services that meet local needs. Networking events are held regularly in store to bring together local communities and discuss relevant business topics. For example, the Birmingham store hosts a bi-weekly Birmingham Central Breakfast Networking Group, where local business professionals meet to connect, build relationships and help one another grow their business.

The Group has partnered with various providers to enable an online account opening process for businesses, and it works with external providers on a range of digital accounting tools. For example:

- *Receipt management (Sensibil)*: lets businesses capture and store receipts, which get automatically matched to a customer's transaction history;
- *Business invoicing (Clearbooks*): allows the quick creation, tracking and management of invoices; and
- *Artificial-intelligence-led 'Business Insights' capability in the Metro Bank mobile application (Personetics)*: helps businesses manage their cash flow and make more data-driven decisions.

**A core deposit base attracted through a differentiated service-led customer proposition that delivers low cost of funding**

By delivering its service-led culture through its integrated physical and digital channels, the Group has benefited from a strong track record of growth in customer accounts and deposits. The Group attracts core deposits through its service-led community banking model with an emphasis on core retail and SME customers. Future growth in deposits will also be supported by expansion of the store network, with 11 more store openings currently planned by the end of 2025.

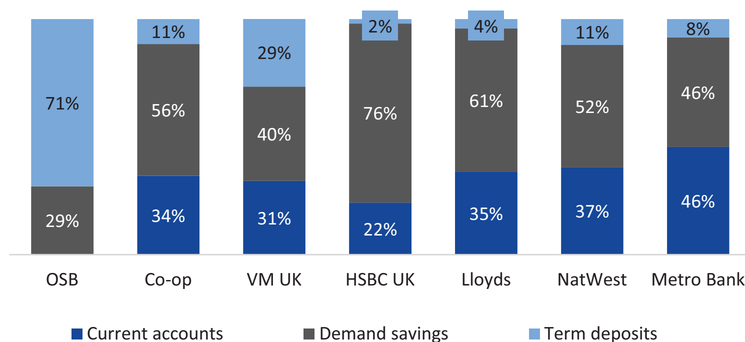
Through the growth in its customer deposits, the Group has built an efficient and high-quality funding profile. As at 30 June 2023, the Group had £15.5 billion of customer deposits, and current accounts comprised 46 per cent. of total deposits. The Group has also tactically re-entered the fixed term deposit market and had £1,205 million of fixed term deposits as at 30 June 2023. The Group is enhancing its deposit generating capabilities to support future growth by launching new propositions and digitising its journeys, as well as by tapping into markets where it currently has a smaller presence, such as the Cash ISA switching market.

The Group's market share, based on Bank of England data from August 2023, is as follows:

| | Market Stock | Metro Stock | Metro Market Share |
|---|---|---|---|
| | *(£ million)* | | *(%)* |
| Personal current account | 258,326 | 2,182 | 0.84 |
| Business current account | 172,627 | 4,700 | 2.72 |
| Retail instant access | 906,664 | 1,852 | 0.20 |
| Business instant access | 270,861 | 1,183 | 0.44 |
| Retail fixed-term deposits | 252,569 | 628 | 0.25 |
| Business fixed-term deposits | 110,383 | 133 | 0.12 |
| ISA | 321,218 | 782 | 0.24 |

Assuming the Transactions successfully close, the Group has identified a sizeable and important opportunity to increase market share in deposits over the medium term, and it estimates there is a £15 billion deposit growth opportunity across Cash ISAs, Business Easy Access and Retail Easy Access accounts just to reach the Group's natural market share levels (based on the Group's current market share of personal current accounts and business current accounts, respectively, as outlined in the 2023 Interim Financial Statements). The Directors believe that accessing this opportunity will be facilitated by an investment in capabilities that is already underway, including improved ISA switching capability, enhanced pricing capability and new digital origination capabilities which are expected to be delivered by 31 March 2024.

The Group's deposit mix, compared to certain of its competitors, is set out below (Metro Bank, Lloyds, NatWest and Co-op as at 30 June 2023, OSB, HSBC UK as at 31 December 2022, VM UK as at 31 March 2023):




The Group's differentiated proposition enabled it to reach an average cost of deposits of 0.20 per cent. in 2022, down from 0.24 per cent. in 2021 and significantly below the Bank of England base rate. The Directors believe that the Group benefits from a scalable operating platform, which will allow cost of deposits to remain low as the Group grows its deposit base as it attracts both new customers and more deposits from existing customers. As the base rate has increased significantly in recent months, the Group's cost of deposits has risen from 0.14 per cent. for the six months ended 30 June 2022 to 0.66 per cent. for the six months ended 30 June 2023, while its average interest yield on loans over the same time period has increased from 3.40 per cent. to 4.50 per cent.

In the first half of 2023, the Group saw total deposits from customers fall 3 per cent. to £15,529 million (31 December 2022, £16,014 million) as cost-of-living pressures saw customers draw down balances. In the second and beginning of the third quarters of 2023, the Group saw balances stabilise, with net inflows in June and July. Although the Group noted an increase in deposit outflow rates in advance of the announcement of the Transactions on 8 October 2023, daily flows have returned to more normal ranges.

The Group continues to win customers, with 159,154 new personal current accounts and 34,533 new business current accounts in the first nine months of 2023. The Directors believe that this demonstrates that the Group's proposition continues to resonate in a competitive marketplace. Although the competitive savings environment puts pressure on pricing, the Group believes its service-led proposition will continue to maintain a high-quality deposit position.

Maintaining a stable core deposit base will remain a focus for the Group as central bank rates continue to rise. To aid the growth of its deposit base, the Group will continue to focus on attracting switchers, especially in the Business and Commercial group, as these customers typically have large stable deposits and are particularly underserved in the wider market, allowing the Group to clearly differentiate its offering from competitors.

**Strong asset quality, supported by an optimised lending mix and customer relationship-based approach, and focus on risk-adjusted returns on regulatory capital.**

The Group's strong track record of asset growth has been matched by consistently strong asset quality. The Company continues to take a prudent approach to origination and its arrears profile and ECL reflect the quality of its lending. The Group's low average cost of risk, at 0.18 per cent. in the six months ended 30 June 2023 (0.32 per cent. in 2022), illustrates its rigorous credit focus.

The Group has a strong credit risk framework in place, which allows it to manage lending within risk appetite limits, provide a comprehensive set of policies and lending standards, and set out a clear set of procedures for managing credit portfolios and any customers in financial difficulty. Individual credit decisions are controlled through both quantitative models and individual review, depending on the product, materiality, and complexity of the exposure. These assessments take into account the potential for future stress in customers' financial positions. All commercial exposures are approved under delegated lending authority. The Group mitigates credit risk by holding collateral against retail mortgages and, where appropriate, against commercial facilities.

Credit risk is overseen by the CRO (supported by the Chief Credit Officer), the Credit Risk Oversight Committee, the Group's Executive Risk Committee, GROC and ROC.

The credit risk function monitors the risk profile using a broad range of risk metrics, reporting against risk appetite limits and regular portfolio reviews. This includes oversight of credit risk performance indicators such as arrears levels, modelled risk measures (such as probability of default ("**PD**") and loss given default ("**LGD**")), and measures of concentration risk. Stress testing is also conducted to assess the impact on the credit risk position.

As part of its credit risk assessments, the Group also utilises, where appropriate, its deep customer relationships to inform its risk assessments. For example, the Group's differentiated approach means that credit partners will meet the borrower along with the relationship manager for selected lending to more fully assess a customer's circumstances, before deciding whether to recommend the credit for approval. This approach enables a more granular underwriting process, improving the quality of the loan book. Contact with the credit partner also provides a personalised service to the customer, thereby improving customer satisfaction.

The Group's robust credit risk framework has continued to support underlying portfolio resilience as cost of living and interest rate pressures have emerged. The Group remains focused on monitoring emerging trends and the impact of high inflation and interest rate pressures on its customers. The Group has taken a number of steps to further enhance support for customers that may be facing financial difficulty through this period, and will continue to work with its customers to support them where needed.

New asset quality in these retail portfolios is strong and mortgage LTV has been stable (30 June 2023, 67 per cent., 31 December 2022, 68 per cent.). This strength is reflected in the overall portfolio, with the mortgage portfolio well-collateralised with average DTV of 58 per cent. at 30 June 2023 (31 December 2022, 56 per cent.), with the increase resulting from movements in market prices. The Group has temporarily withdrawn its buy-to-let product, although it may choose to offer this product again in the future. The consumer portfolio is geared towards prime customers with strong average borrower income; the average gross annual income of unsecured loan customers was £48,639 for the six months ended 30 June 2023. In its commercial portfolio, the Group has been actively reducing some areas of lending, particularly professional buy-to-let and commercial real estate.

The Group has a track record of building and managing a larger commercial lending book than it currently manages. It took the strategic decision to reduce its lending in this space during the period of ultra-low interest rates, where the risk-adjusted return on regulatory capital was less attractive than other lending opportunities. For example, the Group decided to reduce portfolios such as professional buy-to-let in anticipation of receiving AIRB accreditation; however, under a standardised risk weighting, it remains a business that the Group believes can build and generate attractive risk-adjusted returns going forward. The Group has strong network of relationships and relationship managers and has a competitive proposition which resonates well with SMEs and regional commercial businesses. The Group believes that its

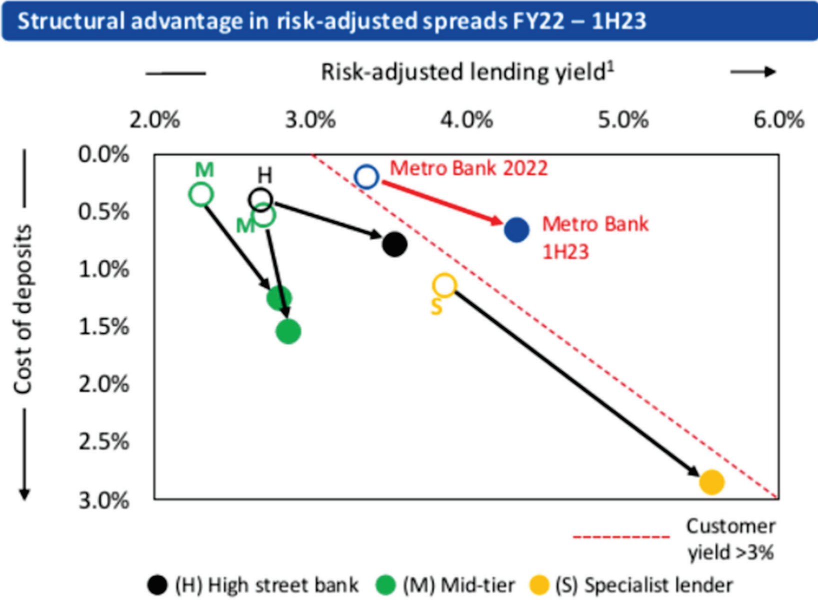
Commercial real estate portfolio provides attractive returns and is likely to continue to make up a portion of the Group's portfolio, albeit at a lower concentration than at its peak. Across the Commercial loan book (not including revolving products, asset finance, invoice finance, partnership banking, retail SME and BBLS) the average DTV was 55 per cent. at 30 June 2023 (31 December 2022, 55 per cent.).

The DTV profile of retail mortgages and commercial term lending (excluding BBLS) as at 30 June 2023 is set out in the tables below:

| | 30 June 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| **DTV ratio** | **Retail Owner Occupied** | **Retail Buy-to-let** | **Total** | **Retail Owner Occupied** | **Retail Buy-to-let** | **Total** |
| | | **(unaudited)** | | | | |
| | | | *(£ million)* | | | |
| Less than 50% | 1,853 | 453 | 2,306 | 2,007 | 568 | 2,575 |
| 51–60% | 875 | 386 | 1,261 | 961 | 463 | 1,424 |
| 61–70% | 1,078 | 633 | 1,711 | 1,088 | 660 | 1,748 |
| 71–80% | 1,037 | 595 | 1,632 | 990 | 434 | 1,424 |
| 81–90% | 517 | 23 | 540 | 374 | 13 | 387 |
| 91–100% | 141 | — | 141 | 87 | – | 87 |
| More than 100% | — | — | — | – | 4 | 4 |
| **Total** | 5,501 | 2,090 | 7,591 | 5,507 | 2,142 | 7,649 |

| | 30 June 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| **DTV ratio** | **Commercial PBTL** | **Commercial non-PBTL – Loans** | **Total** | **Commercial PBTL** | **Commercial non-PBTL – Loans** | **Total** |
| | | **(unaudited)** | | | | |
| | | | *(£ million)* | | | |
| Less than 50% | 210 | 790 | 1,000 | 278 | 817 | 1,095 |
| 51–60% | 110 | 340 | 450 | 158 | 433 | 591 |
| 61–70% | 135 | 138 | 273 | 219 | 112 | 331 |
| 71–80% | 95 | 90 | 185 | 62 | 76 | 138 |
| 81–90% | 56 | 29 | 85 | 3 | 53 | 56 |
| 91–100% | 6 | 32 | 38 | 5 | 12 | 17 |
| More than 100% | 3 | 502 | 505 | 6 | 587 | 593 |
| **Total** | 615 | 1,921 | 2,536 | 731 | 2,090 | 2,821 |

The Directors believe that the Group has a structural advantage in risk-adjusted spreads, as illustrated by the following graph:




Note:

(1) Income on loans to customers/average customer loans less loan losses / average customer losses. Peer data is latest reported.

## Strategy

The Group's transformation strategy, executed primarily between 2019 and 2022, created a strong platform for growth. As a result of the transformation strategy, the Group returned to quarterly profitability on an underlying profit before tax basis in the fourth quarter of 2022. The Group intends to remain a business focused on creating FANS, attracting core deposits and growing low-risk lending through its service-led culture and integrated customer experience. The Group's strategy for 2023 onwards is focused on five key pillars, being revenue growth, balance sheet optimisation, cost control, infrastructure development and communication.

## Create FANS to deliver revenue growth

The Group is built around a customer-centric culture with clear strategic ambition to create FANS. At the heart of the Group's strategy is the conversion of customers into FANS through the delivery of a differentiated customer experience. The Group is committed to maintaining a well-trained and motivated team of colleagues to drive customer engagement across all channels to create profitable long-term relationships and grow the *Metro Bank* brand, and to provide a superior customer proposition.

*Strong customer engagement and product proposition:* The Group aims to provide a superior customer proposition designed to drive customer engagement and build long-term relationships. The Group intends to drive increased customer engagement through differentiated customer service and convenience, the delivery of seamless distribution capabilities across all channels and the continued offering of simple, fair and transparent products. The Group is particularly focused on leveraging its existing product set and the latent capacity that exists across the Group to return it to net lending growth. To support scale in lending, the Group's management is focused on enhancing deposit-generating capabilities by launching new propositions and digitising customer journeys, as well as tapping into markets that are currently underserved by the Group, such as the Cash ISA switching market.

*Customer friendly service policies:* The Group offers "early until late" store opening hours 362 days a year and services through its digital channels on a 24/7 basis. By seeking to make customers' lives easier, the Group seeks to create "FANS for life".

*Store strategy:* The Group intends to continue providing real-time straight-through processing to customers at the point of sale via its network of stores, and it has developed a compelling set of assisted service and self-service opportunities in stores. The Group currently intends to continue expanding its store network

through strategic expansion, with 11 new store openings planned in the North of England by the end of 2025 in order to deliver on commitments under the C&I Fund grant.

*Digital strategy:* As customers' digital expectations evolve, the Group will continue to invest in and refine digital customer services. In 2022, the Group invested in digital channels by upgrading the online banking platform and enhancing self-service options online and via the mobile application. The Group also introduced QR codes to the personal account online journey, so that FANS can pass identification and verification requirements on their smartphone. The Group introduced a new Products and Services Hub in the mobile application to show customers all the products the Group offers. Furthermore, customers can now search and filter transactions, and there is a duplicate payee pop-up so customers know if they're adding a payee who has already been added their account. In 2023, a new chatbot functionality was launched on the mobile application to help customers self-serve for basic queries, and a live chat functionality is also being developed to enable real-time chat between customers and support colleagues.

*Colleague recruitment, training and reward:* As the tangible point of service delivery, colleagues are central to delivering superior customer experience. As such, the Directors seek to ensure that colleagues are well-trained, motivated and aligned to the Group's purpose and culture. Accordingly, the Group hires customer-facing colleagues with the right attitude and trains them in the relevant skills, ensuring colleagues act professionally and provide levels of service and engagement that match or exceed best-in-class retailers. The Group intends to continuously invest in the development of its workforce and provide ongoing training. Appraisals are based on the effective delivery of the Group's culture and customer service standards rather than product sales targets for front line employees, with share options given to every colleague through a variable reward programme.

**Balance sheet optimisation: Continued focus on risk-adjusted returns**

The Group actively manages its balance sheet to maximise return on capital. As part of this strategy, the Directors see an opportunity to pivot away from fixed rate consumer lending and towards areas which offer more attractive returns, such as specialist mortgages and commercial lending.

The Group intends to seek to accelerate the growth of its Business and Commercial group, and within that group, to further grow its Business and Commercial group lending portfolio, which is a largely variable-rate book that the Directors believe offers attractive yields.

Business and Commercial lending is delivered via a range of primarily secured products, including loans, overdrafts, credit cards, asset and invoice finance and revolving credit facilities. The Group's service-led proposition, which it believes resonates strongly with SMEs in particular, relies on a mix of relationship managers and local credit risk partners, and offers asset, liability and transaction banking product ranges combined with digital capabilities.

In 2019, the Group decided to scale back its Commercial lending operations and, as a result, its Commercial lending book (excluding professional buy-to-let and various Government-backed lending schemes which were created to provide support to businesses in the wake of the COVID-19 pandemic) decreased in size by 32 per cent. between 2019 and 2022. During the pandemic, the Group actively supported SMEs via £1.7 billion of funding through Government-backed lending schemes, thereby further growing the Group's brand with its SME customer base.

The Group has also used investments from the C&I Fund to support its ongoing geographic expansion into the underserved North of England, as well as to improve its SME banking and lending capabilities and further develop its automation processes and scorecard-led credit decision making, thereby advancing the Group's objective of supporting SME borrowing needs at scale.

Taken together, the Group believes that this will give it a platform to further grow its Business and Commercial lending portfolio and offer attractive returns. The Group continues to see Business and Commercial lending as a relationship-driven business for its SME customer base, and is working to strengthen the appeal of its proposition and grow its core deposit business models.

See paragraph 2 of Part I for a discussion of the Group's strategy with respect to its lending activities, assuming the Transactions successfully close.

**Targeting low marginal costs to support profitable growth and reinvestment**

As one of its five strategic pillars, cost discipline and control is a key focus for the Group. It targets low marginal costs in order to widen operating jaws and support continued profitability as the Group leverages a largely fixed cost base and grows its balance sheet. Despite the rising inflationary environment, underlying

operating expenses fell by 3.1 per cent., or £8.1 million, to £258.2 million for the six months ended 30 June 2023, compared to the six months ended 30 June 2022. Underlying operating expenses fell 3 per cent., or £14.0 million, to £532.8 million in 2022 as compared to 2021, with a subsequent year-on-year reduction in the Group's underlying cost-to-income ratio from 137 per cent. in 2021 to 102 per cent. in 2022. Non-underlying costs have continued to fall year-on-year, as the Group has addressed legacy issues and delivered functionality prioritised under its transformation plan. These efforts have resulted in a reduction of non-underlying costs from £94.4 million in 2021 to £21.5 million in 2022.

Non-underlying costs also significantly decreased, from £12.5 million in the six months ended 30 June 2022 to £1.5 million in the six months ended 30 June 2023, representing an 88 per cent. decrease. Furthermore, underlying operating expenses decreased by 3 per cent. in the six months ended 30 June 2023, as compared to the six months ended 30 June 2022. As a result, the Group's underlying operating jaws widened to 24 per cent. in the six months ended 30 June 2023 as compared to the six months ended 30 June 2022.

In addition, lending balances increased by 7 per cent., or £812 million, from £12.3 billion as at 31 December 2021 to £13.1 billion as at 31 December 2022, while at the same time the Group built infrastructure and operational capacity to support increased volume at low marginal costs.

The Group regularly reviews its store estate, and during 2022 closed three stores. Assuming the Transactions successfully close, the Group currently plans to open 11 new stores in the North of England by the end of 2025 (the staffing of which will be partly paid for by funds from the C&I Fund), and management priorities for this expansion will focus around less expensive and more sustainable builds, long leases with multiple and frequent breaks, or freehold ownership where available on good terms.

The Group intends to maintain tight control of costs by continuing to ingrain discipline across all business functions. Examples of this in practice include simplifying IT processes and improving its mobile application (thereby reducing calls to contact centres and freeing up time to focus on more complex calls). The Group also sees scope to further leverage existing operational capacity and infrastructure that exists to drive further economies of scale (i.e., low marginal costs) in relation to savings and mortgage platforms. Furthermore, the Group will continue to seek to increase utilisation of artificial intelligence and automation to reduce costs where appropriate.

See paragraph 2 of Part I for further details regarding the cost reduction initiatives announced by the Group on 8 October 2023 in connection with the anticipated successful completion of the Transactions.

**Infrastructure: Protecting value through safe, scalable infrastructure**

The Directors' objective is to make the Group safer, more resilient and fit for the future. To achieve this, the Group has continued to invest in core infrastructure, enhancing risk management and integrating channels to further improve its service offering. The Group intends to continue to invest in key focus areas, including regulatory compliance and financial crime, and will continue to embed the Agile approach to change projects which it adopted in 2022. For example, the Group is preparing for the proposed enhancements to internal control requirements under the revised UK Corporate Governance Code, which will see the Company continue to invest in its controls, building on the work that it has already undertaken over the past few years, both within the finance department and across the Group.

The Group is focused on building infrastructure that will be scalable, such that when capital is no longer a core constraint, the Group will be able to grow the business in a manner that delivers compelling risk-adjusted returns.

The Group is working on its strategy to modernise its infrastructure by progressively moving to private and public cloud platforms, which would allow it to unlock the ability to scale infrastructure while remaining secure and resilient. It has also introduced new technology into the landscape such as CXPR behind its mobile channel, enabling more scalable development of new products and services. Furthermore, the Group is investing in digital capabilities, in particular Kafka, Mongo, Snowflake and Kong. The Directors believe that these technologies will allow the Group to develop stronger connectivity across its systems, enhance its data ingestion and consumption capabilities and introduce APIs, both across its technology estate and with third parties.

**Communication: Engaging colleagues, communities and other stakeholders to push forward the Metro Bank story**

The Group's commitment to supporting colleagues and communities is deep and enduring. Inclusion is at the heart of the Group's culture and this is demonstrated through the local colleagues the Group employs,

the market-leading service it delivers to all customers and the local causes it supports. The Group's new diversity and inclusion strategy, enacted in 2022, celebrates the Group's achievements and further raises the Group's ambitions for the future.

The Group is committed to a supportive colleague experience based on an inclusive culture. It will continue to invest in training and development programmes, including apprenticeships, and will encourage promotion from within where possible.

The Group is committed to continuing to support customers who may be experiencing financial difficulty. The Group has launched an online hub that centralises information about the support it can offer to those facing financial difficulty. In addition, the Group is proactively contacting customers who may need extra support or are at risk of falling into arrears. The Group employs a specialist team that helps customers experiencing financial difficulty, and these team members are well-trained and can tailor support to customers' individual circumstances.

Engagement with communities will remain central to the Group's communication strategy. In addition to maintaining ongoing initiatives, the Group plans to expand Money Zone, the Group's financial education programme for children. The Group also plans to continue to focus on communities through its Days to AMAZE programme for employees, fundraising for charities and supporting local businesses.

Being a community bank also means being environmentally responsible. The Group is proud of its policy not to finance extraction of fossil fuels or their use for power generation (and has never done so), and it has made a commitment to reduce the Group's own carbon footprint on the way to becoming net zero across operations by 2030.

**Strategic optionality**

The Directors believe that the Group's core strategy of creating FANS through its unique service-led culture and attracting core deposits which can then be deployed into a range of assets sets the Group up well for the future and provides an attractive set of strategic options, although the Group will not be in a position to pursue these options while capital remains a core constraint.

The Group is particularly focused on leveraging its existing product set and the latent capacity that exists across the Group to return it to net lending growth. To support scale in lending, the Group's management is focused on enhancing deposit generating capabilities by launching new propositions and digitising customer journeys, as well as tapping into markets that are currently underserved by the Group, such as the Cash ISA switching market.

**Operating structure**

The Group is principally a deposit-taking and lending institution, which it services through two customer groups: Retail (the "**Retail group**") and Business and Commercial (the "**Business and Commercial group**"). Within its Retail group, the Group offers products in its personal banking and private banking business lines ("**Personal Banking**" and "**Private Banking**", respectively), and within its Business and Commercial group, offers business banking, commercial banking, partnership banking and commercial private banking business lines ("**Business Banking**", "**Commercial Banking**", "**Partnership Banking**" and "**Commercial Private Banking**", respectively).

The Group provides simple and transparent mass-market deposit and lending products, including current and savings accounts, retail and commercial mortgages, retail and commercial loans, overdrafts and credit cards. The Group also uses its Private Banking business line to provide high net worth customers with the same range of simple banking products supported by a more personalised service model and access to a dedicated private banker. In addition to a strong Retail group offering, the Group's Business and Commercial group customers are offered a growing range of services to complement a relationship-driven offering, including invoice and asset finance and point-of-sale merchant services.

As at 30 June 2023, the Group had 2.8 million customer accounts, and deposits from customers of £15,529 million, of which 49 per cent. and 51 per cent. was attributable to Retail group and Business and Commercial group customers, respectively. As at the same date, it had loans and advances to customers of £12,572 million, of which 71 per cent. and 29 per cent. was attributable to Retail group and Business and Commercial group customers, respectively.

The Group's loans and deposits split by group are set out below:

| | As at 30 June 2023 |
|---|---|
| | *(unaudited)* *(£ million)* |
| Demand: current accounts | 7,106 |
| Demand: savings accounts | 7,218 |
| Fixed term: savings accounts | 1,205 |
| **Deposits from customers** | 15,529 |
| **Deposits from customers includes:** | |
| Deposits from retail customers (excluding retail partnerships) | 5,647 |
| Retail partnerships[1] | 1,910 |
| Deposits from commercial customers (excluding SMEs) | 2,906 |
| SMEs | 5,066 |
| Gross loans and advances to customers | 12,769 |
| Less: allowance for impairment | (197) |
| **Loans and advances to customers** | 12,572 |
| **Gross loans and advances to customers includes:** | |
| Commercial term loans | 3,174 |
| Asset & invoice finance | 435 |
| Other commercial lending | 159 |
| **Commercial loans** | 3,768 |
| Residential owner occupied mortgages | 5,501 |
| Retail mortgages (buy-to-let) | 2,090 |
| Consumer and other loans | 1,410 |
| **Retail loans** | 9,001 |

Note:
(1) Includes Partnership Banking deposits.

**Culture and colleagues**

The Group places significant importance on the strength of its corporate culture and seeks to attract a diverse colleague base that represents the communities it services and is aligned with its culture, customer service proposition and values. The Directors believe that the Group has been able to attract talent through a combination of its culture, unique business model, a simple and consistently-applied remuneration approach, and by providing an opportunity to be a part of a dynamic and growing business, which provides it with a strong competitive advantage relative to other high street banks.

The Directors believe that the Group's growth has allowed it to offer its colleagues more career and promotion opportunities than larger competitors. For example, in 2022 the Group promoted over 600 colleagues, 18 per cent. of which were moves from customer-facing areas into corporate functions and 42 per cent. of which were colleagues of Black, Asian or minority ethnicity. The Group provides a wide range of in-house and online (self-service) training content through "Metro Bank University", which is designed to help colleagues learn and enhance their skills. In 2022, 222 new learning resources were created, and colleagues completed over 18,000 hours of learning with the support of 25 internal Experience and Inclusion professionals.

The Group's remuneration approach is simple and consistent. It offers colleagues a reward structure that supports the Group's unique culture and long-term strategy and is aligned to shareholder interests. Salaries are set at an appropriate and competitive level, with subsequent increases being primarily driven by the external market and capability. The Group also provides a range of benefits. For example, all colleagues are

eligible for private medical insurance funded at different rates of cover depending on their level and receive life assurance cover of four times salary. In addition, all colleagues can participate in the Group Personal Pension Plan with an employer pension contribution of up to 10 per cent. of their annual salary. Furthermore, all colleagues are eligible to receive additional variable remuneration, and the same performance adjustment factor is applied to all colleagues. For colleagues whose personal behaviours and delivery are as expected or better, an adjustment factor of up to 200 per cent. of salary can apply, demonstrating that the Group rewards colleagues for behaving in line with its culture and values, and not just performance against objectives. Where appropriate and required by regulations, variable remuneration is deferred and delivered in shares.

Based on an internal survey conducted in May 2023, the "Voice of the Colleague", colleagues gave the Group an employee satisfaction survey score of 78, in response to the question 'How happy are you working for Metro Bank', and 95 per cent. of the Group's scores have been above the survey administrator's global benchmark. In 2022, the Group was ranked in News Week top 10 places to work in the UK in its 'most loved workplace' category.

**Customer engagement and fulfilment**

The Group launched its first brand campaign 'People-people banking' in 2020. In addition to this, it continues to place a strong emphasis on the use of its direct distribution channels, comprising its highly visible stores, mobile and internet offerings, and local contact centres, together with its unique customer service proposition, to ensure that its customers become "FANS" of the bank, who then spread the word to their friends, family and business colleagues. The Group also seeks to leverage the strength of its brand and the strategic location of its stores to become part of local communities. For example, through its store network, the Group worked with 2,460 children to promote financial education through its UK Key Stage 2 "Money Zone" programme in 2022 alone. In addition, in 2023 the Group announced a new deal with the ECB until the end of 2028 to be the exclusive partner to the ECB for women's and girls' cricket. The partnership deal is designed to raise awareness of the *Metro Bank* brand nationally while reinforcing the local community values the Group seeks to promote.

The Group actively uses various social media platforms as channels for customer engagement. For example, Twitter has become the principal channel for some customers to communicate with the Group, and the Group has begun to see an increasing number of regular customers use Twitter. Accordingly, the Group monitors Twitter for both positive remarks on new propositions, such as the reaction to the launch of its current account online platform and new updates to its mobile banking app, as well as customer complaints. The Group also monitors trends on social media directed at competitors, such as complaints regarding customer service or digital banking applications, to inform the Group's own differentiated customer proposition strategy.

The Group's pervasive customer-centric culture enables it to provide a differentiated service and convenience, which the Directors believe is comparable to that of some of the most admired brands in retail. For example, legacy bank rules that restrict or frustrate customers have been replaced by policies such as "early until late" store opening hours, 362 days a year, and services through digital channels on a 24/7 basis. By championing the needs of customers, the Group seeks to create "FANS for life", building long-term relationships and brand loyalty, having achieved 83 per cent. brand recognition, up 3 per cent. year-over-year across England and Wales *(Source:* Kantar Brand Equity Study, 2022), with limited annual external advertising expenditure.

In 2023, the Group was recognised as ranking first among high street banks for overall service for personal current account customers and first for in-store personal and business service (for the eleventh time in a row) in the CMA's Service Quality surveys.

**Stores**

The Group's store footprint has been, and continues to be, built organically through the opening of new stores placed in strategically selected prime locations to ensure that the Group's operating model is fully aligned with its customer proposition. The Group seeks to open high-visibility (typically with large glass storefronts and designed in the Group's recognisable red and blue colours) stores in prime locations where people live, work and play to achieve an interconnected "network effect" (i.e., an effect through which the visibility and brand awareness of each store enhances and complements that of other stores). As the Group moves forward, it will evolve its store layouts and unit size, introducing more assisted service and self-service offerings, thereby increasing customer choice and driving cost efficiencies for the Group.

Consistent with its emphasis on retail-style customer service and tangible delivery, the Group's stores are open seven days a week with longer hours than competitors (typically 8:30 a.m. to 6:00 p.m., with standard hours across the store network to help ensure dependability for customers), which the Directors believe resonates well with busy people and the businesses that serve them.

The Group's first store opened in Holborn, London on 29 July 2010 and, as at 30 June 2023, the Group operated 76 stores. Historically, the location of the Group's stores has been geographically focused in London and the surrounding commuter areas, but it has expanded into the South of England, the Midlands, the South West, Wales and the North of England. The Group is currently planning to open a further 11 stores in the North of England by the end of 2025, the staffing of which will be funded in part by the Group's grant from the C&I Fund.

Store openings are highly publicised, and the Group organises both personal and business events and activities, to attract customers and familiarise them with the Group brand and values. To maintain cultural and operational continuity, when possible, the Group seeks to staff new stores with a core of existing colleagues relocated from other stores.

The Group owns 30 of its 76 stores, being freehold or long-leasehold properties, with the remainder of stores leased subject to typical lease terms. The Group has increased the number of stores in its network from four as at 31 December 2010 to 76 as at 30 June 2023. The table below sets out the number of stores as at the dates indicated.

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| Number of Stores | 77 | 78 | 76 | 76 |

**Digital channels – online and mobile**

The Group's customers can use digital interfaces to open retail and SME accounts and access its products and services. Approximately 30 per cent. of all new retail and SME customers use online channels to open their first account with the Group, which also encourages immediate set up of mobile and online banking.

The Group provides its Retail group customers with online and application-based banking, which gives customers the ability to open new accounts, make payments and access other account functionality, including "Insights", the artificial intelligence offering to support customers in managing their finances. For Commercial Banking and Business Banking customers, the Group offers both a standard business internet banking function and an enhanced online business support system for more complex needs through its "Commercial Online" and "Business Online Plus" offerings, which allow Commercial Banking and Business Banking customers to set up advanced payment, transfer and account management functions for an additional fee.

In 2022, the Group's online banking and mobile banking sites experienced over eight hundred thousand and twenty-one million logins every month, respectively. Additionally, for the six-month period ended 30 June 2023, over two-thirds of the Group's current account holders used digital channels. The Group offers free wireless internet connection in all of its stores, thus providing customers with the option to download the *Metro Bank* mobile application in-store while opening an account. All of the Group's customers benefit from a variety of online and mobile features, such as the ability to customise account names and freeze and unfreeze cards at will, for example after losing debit or credit cards.

**Telephony**

The Group provides a telephone banking capability with three contact centres located in England, which use automated intelligence to route customer calls in real-time to the right agent. The Group contact centre colleagues are also able to view photographs of the customer who has called, as well as their entire account status, recent interactions with the Group and account history through the Group's customer relationship management interface.

The breakdown of activity by distribution channel for the six months ended 30 June 2023 is set out in the table below.

**Retail group**

The Group's Retail group includes its Personal Banking and Private Banking business lines. The Group does not target a particular retail customer segment or profile and instead seeks to attract the business of mass market retail customers. Within Personal Banking, the Group seeks to provide a simple, transparent and easy-to-understand product set to its customers, together with excellent customer service. In 2022, the average time to open a personal current account online was approximately eight minutes, after which customers have full online account access and contactless debit card functionality (with a cheque book to follow, if requested).

In addition to traditional retail products such as current and cash (basic) accounts, credit cards, unsecured loans, overdrafts, savings accounts and mortgages, the Group also offers customers safe deposit boxes for annual or monthly fees, illustrating its commitment to providing practical products designed to meet a wide range of retail-customer needs. For Private Banking clients, the Group offers a similar range of simplified banking products, tailored to the needs of individual clients and supported by a bespoke service model and access to a dedicated private banker. In December 2022, the Group launched its motor finance lending product, which operates under the *RateSetter* brand.

**Personal Banking**

***Current accounts***

As a deposit-driven bank, the Group views retail current accounts as the heart of its product offering, providing the Group with loyal customers and a source of resilient core funding (relative to wholesale funding).

The Group's current accounts are available in GBP for Personal Banking customers, are non-interest bearing and offer free cash withdrawals and card transactions in Europe. In addition, they have access to direct debit, standing order and direct payment features and can be supplemented with overdrafts and cheques. The Group's more basic personal banking account, the cash account (typically for those with limited income or without an extensive credit history), offers customers basic banking day-to-day needs and monthly statements. The Group also offers the "Current Account Switch Service" (using the UK current account switch service system) that helps customers switch their current accounts from their existing bank to the Group within seven days, including by transferring all outgoing payments (e.g., direct debits, standing orders, etc.) and redirecting incoming payments (for a period of 36 months), as well as typically matching overdraft limits from customers' previous current accounts. Customers can open current accounts in store or online.

The Group grew from 963,000 personal current accounts as at 30 June 2020 to 1,067,000 as at 30 June 2021, 1,198,000 as at 30 June 2022 and 1,343,000 as at 30 June 2023.

***Savings accounts***

Many Personal Banking customers seek outlets for their deposits that will provide a higher rate of return than those provided by current accounts. The Group offers a number of GBP-denominated savings account choices to Personal Banking customers to meet their various needs. Savings accounts typically provide either fixed or variable interest rates (with variable interest rates changing at the discretion of the Group, but often moving in response to changes in the Bank of England base rate) and are classified as either instant access, from which customers can withdraw their deposits at any time, or term deposits, from which customers can only withdraw deposits without penalty at the end of the term. In addition, the Group offers both instant access and fixed rate ISAs, savings accounts that qualify for favourable tax status in the UK. Customers can open savings accounts in store or online.

***Retail mortgages***

The Group offers a series of mortgage products to Personal Banking customers. As at 30 June 2023, the Group had total gross retail mortgage assets of £7,591 million, and in 2022, the Group's retail mortgage lending portfolio was £7,649 million. As at 30 June 2023, the Group's retail mortgage assets had an average DTV ratio of 58 per cent. (31 December 2022, 56 per cent.). As at the same date, the average retail mortgage current balance held by the Group was £265 thousand.

Consistent with its overall customer proposition, the Group places significant emphasis on customer service and transparency throughout its retail mortgage process. For example, while all of the Group's retail mortgage loans are initially assessed by automated underwriting software, each retail mortgage application also currently undergoes an element of manual (i.e., human) underwriting, with a view to providing its

customers with the most suitable loan based on an analysis of their personal circumstances. After a mortgage has been extended, the Group offers flexibility to its customers through its retention process, which allows them to move to a new mortgage three months before the expiry of their initial period. In addition, the Group also enables customers to repay up to 20 per cent. of their mortgage each year without any early repayment charge.

The Group's retail mortgage portfolio, consistent with its customer base, is concentrated in Greater London and the South East of England, with these areas representing 41 per cent. and 24 per cent., respectively, of the portfolio as at 30 June 2023 (31 December 2022, 41 per cent. and 24 per cent.), with the remainder of mortgages distributed across other areas of the UK. However, with the geographic expansion of the Group's store network, and the expansion of the Group's intermediary base across the UK, this geographic distribution has changed, and is expected to continue to change, over time. In 2020, the Group sold a £3.1 billion mortgage portfolio to NatWest. The remaining mortgage portfolio is administered through Pepper (UK) Limited.

The Group's retail mortgage portfolio consists of loans secured on properties by way of a first ranking charge on the property to which the mortgage loan relates on terms which allow for the repossession and sale of the property by the Group if the borrower fails to comply with the terms of the loan. For Personal Banking customers, the Group offers both borrower-occupier mortgage lending (where the borrower is occupier of the mortgaged property), with a maximum LTV Ratio as at 30 June 2023 of 90 per cent. and buy-to-let lending (where the borrower purchases with the intention to let the mortgaged property), with a maximum LTV Ratio of 75 per cent. For buy-to-let loans, as at 30 June 2023, borrowers must demonstrate rental coverage for the property in the amount of 140 per cent. of the mortgage payment, assuming a stressed interest rate of 6.4 per cent. or 7.5 per cent., depending on the details of the product taken. The Group does not currently offer new buy-to-let mortgages, although it intends to offer this product again in the future.

The Group offers fixed rate retail mortgage loans. Fixed rate mortgage loans have a set rate for an initial period (typically two or five years), after which the rate reverts to the Group's standard variable interest rate, set at the Group's discretion (assuming the borrower does not refinance the loan).

The Group offers repayment and interest-only retail mortgages. As at 30 June 2023, 48 per cent. of retail mortgages were capital and repayment and 52 per cent. were interest-only. Customers with repayment mortgages pay off both interest and capital, usually through monthly payments, while customers with interest-only mortgages (which are typically limited to loans with an average LTV Ratio of 75 per cent.) pay off interest-only each month. In common with other retail mortgage lenders in the UK, the Group imposes early repayment charges on certain of its retail mortgage products.

In the periods under review, the Group has had low levels of arrears in its mortgage portfolio. As at 30 June 2023, the Group had £69 million in retail mortgages which were 90 days or more past due (31 December 2022, £56 million).

***Mortgage distribution***

The Group has grown its retail mortgage portfolio primarily by establishing relationships with a wide range of specialist mortgage intermediaries. This model is designed to give the Group access to a broader range of customers, who prefer to take independent advice, and provides the Group with a scalable platform for future growth. The Directors believe that the Group's emphasis on transparent pricing, a simple mortgage application policy and fast turnaround times is attractive for brokers and other mortgage intermediaries.

***Unsecured lending***

The Group currently offers a range of unsecured lending products to Personal Banking customers, including unsecured loans, credit cards, motor finance and overdrafts. Unsecured loans are available via digital and face-to-face channels, and the other products are available through face-to-face channels only.

Given the prevailing economic conditions, the Group plans to limit further asset growth in the consumer unsecured space. However, capital allocation will be informed by continued assessment of unsecured consumer pricing movements and the associated macro-economic environment and the impact this has on credit provisioning. Because of the increased risk of loss for the Group on unsecured lending compared to mortgage lending (due to the fact that the Group holds no security that can be enforced if a customer defaults on the loan), interest rates on the Group's unsecured lending are typically higher than those on mortgage products.

*Credit cards:* the Group offers *Metro Bank*-branded contactless MasterCard credit cards for Personal Banking customers that provide free card transactions within the single European Payments area and no annual fee. As at 30 June 2023, the Group had approximately 39,855 open retail credit card accounts, and the Group's retail credit card portfolio had receivables of £23 million (31 December 2022, £19 million).

*Unsecured loans:* the Group offers personal unsecured loans, via the *RateSetter* brand, to Personal Banking customers that may be used for a variety of reasons such as home improvements, vehicle purchases or consolidating existing debt. The Group endeavours to ensure that its personal unsecured loans are easy to arrange and that they are offered via a digital process and are available through a range of channels. The Group offers these loans directly to customers. In addition, RateSetter loans are also available via a range of third parties, including aggregators and motor finance brokers.

*Motor finance:* Towards the end of 2022, the Group began to offer secured motor hire purchase loans via the *RateSetter* brand. These loans are aimed at the second-hand car market and are distributed via major car finance brokers to customers. As at 30 June 2023, the Group's secured motor loans portfolio was £5 million.

*Overdrafts:* the Group offers overdrafts to its Personal Banking current account customers. Overdrafts occur when a customer pays or withdraws money from their current account in excess of their credit balance. As at 30 June 2023, the Group's retail overdraft balances were £45 million (31 December 2022, £60 million).

***Safe deposit boxes***

All of the Group's stores offer safe deposit boxes for a monthly or annual fee, with an average of over 2,000 boxes available at each store. Safe deposit boxes are offered in a variety of sizes and price ranges and allow customers to store documents or valuables in a secure environment, with unlimited access available during store opening hours seven days a week, 362 days a year. In the six months ended 30 June 2023, visits to safe deposit boxes during weekends and before 9 a.m. or after 3 p.m. on weekdays were up 11 per cent. as compared to the six months ended 30 June 2022.

**Private Banking**

The Group's Private Banking business line offers traditional banking and lending to high net worth clients, providing them with the same range of simple banking products, but supported by a bespoke service model and unlimited access to a dedicated private banker. Because the Group does not offer wealth management or investment advice, it is able to partner with a broad range of investment managers, accountants and advisers who view the Group as a complementary, rather than competitive, service provider, and who are, therefore, a significant source of referrals.

Although the Group does not employ formal criteria in accepting Private Banking clients, customers typically have net wealth in excess of £2 million. The Group asks that its customers undertake a minimum of £1 million in business with the Group, which can be a combination of lending and deposits.

The Group provides bespoke lending products to meet the special needs and circumstances of its Private Banking clients. The Group employs sector specialists who provide tailored banking solutions for private clients with significant commercial interests, sports and entertainment figures, entrepreneurs, high net worth families and professionals and senior executives. These sector specialists consider individual factors such as cash flow considerations, professional needs and personal timing constraints to craft individual banking solutions for clients. For example, leveraging the Group's manual underwriting functions, sector specialists are able to analyse and understand the irregular income streams of certain customers, such as sports and entertainment stars, to structure lending solutions responsive to, and appropriate for, their financial situations.

**Business and Commercial group**

The Group's Business and Commercial group includes its Business Banking, Commercial Banking and Partnership Banking business lines.

**Business Banking and Commercial Banking**

The Group's Business Banking customers are varied, but are typically SMEs based around its stores with a typical turnover of up to £2 million. From business current accounts, overdrafts, card payment solutions and cash management services to expansion funding and lending, the Group aims to help its SME customers at all stages of a business' development, providing them with a local business manager with expertise and familiarity with their business. The Group also partners with local-area professionals, such as lawyers and accountants, in order to build relationships within communities and provide banking services meeting local needs. Networking events are held regularly in store to bring together local communities and discuss relevant business topics.

The Group's Commercial Banking customers typically have a turnover of more than £2 million and are served through Regional Banking teams providing a local relationship service linked to the Group's stores, as well as through the large trading business team and the real estate team. Commercial Banking and Regional Banking colleagues are located in stores throughout the Group's network. The Group's customers primarily fall into one of a number of sectors, including general trading businesses, property development and investment, hotels and leisure companies, primary and secondary healthcare companies, professional firms and financial services. The Group offers these customers a wide range of mortgage and commercial lending products, working capital facilities, savings and deposits products, transactional banking solutions and cash management services.

Similar to its retail offering, the Group emphasises customer care in servicing its Business Banking customers' current account and deposit needs. The Group is able to open a current or deposit account in store for a new-to-bank Business Banking customer within a day in many cases and allocates a local business manager or relationship team (depending on the size of the customer) dedicated to meeting the account holder's broader business needs.

The Group has also expanded its loan offering through its participation in the various Government-backed lending schemes which were created to provide support to businesses in the wake of the COVID-19 pandemic.

***Deposit accounts***

Business Banking and Commercial Banking customers offer the Group the opportunity to obtain large-scale deposit funding, and the Directors believe that business and commercial deposit accounts are an underserved segment of the UK banking market, and as a result are a particular area of potential growth for the Group.

Current accounts are available in GBP, Euro and US dollar denominations for Business Banking and Commercial Banking customers.

The Group offers a broad range of deposit accounts, including fixed term and variable savings accounts, as well as a variety of specialised deposit accounts.

For Business Banking and Commercial Banking customers holding significant amounts of client monies, the Group offers "flexible client term deposit accounts", fixed term deposits typically used by customers to hold client monies. These accounts, which require a minimum of £500,000 deposit, do not allow partial withdrawal, and offer fixed interest rates for either six-month, nine-month or one-year terms. For more flexible withdrawal needs for client monies, the Group offers premium deposit accounts, which offer a single master holding account with sub-accounts for each customer client.

The Group grew from 150,000 business current accounts as at 30 June 2020 to 167,000 as at 30 June 2021, 184,000 as at 30 June 2022 and 201,000 as at 30 June 2023.

The table below sets out a breakdown of deposits by interest type as at 31 December 2020, 2021 and 2022, and 30 June 2023.

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | | | | *(unaudited)* |
| | | *(£ million)* | | |
| Demand: current accounts | 6,218 | 7,318 | 7,888 | 7,106 |
| Demand: savings accounts | 6,430 | 7,684 | 7,501 | 7,218 |
| Fixed term: savings accounts | 3,424 | 1,446 | 625 | 1,205 |
| **Total** | **16,072** | **16,448** | **16,014** | **15,529** |

***Lending***

The Group provides a variety of lending options for Business Banking and Commercial Banking customers.

When creating lending solutions for Commercial Banking customers, the Group provides each borrower with a dedicated relationship manager familiar with the customer's business, as well as efficient, manual underwriting of loan applications. Commercial Banking customers have access to the Group's business loans, which can be obtained in amounts greater than £25,000. These business loans are available with variable interest rates for standard periods of up to five years (with some exceptions allowed for longer terms). The Group provides Commercial Banking lending predominantly on a secured basis, and it is the general policy that guarantees are required for commercial loans. The Group also offers overdrafts to Commercial Banking customers, with interest rates set on a customer-by-customer basis.

In addition to the loans typically offered to Commercial Banking and larger Business Banking customers, the Group offers 'small business loans', which are made in amounts from £2,500 to £60,000, have fixed interest rates, and are typically offered unsecured for a term of one to five years.

The Group also offers *Metro Bank*-branded business MasterCard contactless credit cards for Business Banking and Commercial Banking customers. These credit cards carry the same interest rates as those offered to retail customers, and similarly offer fee-free card transactions in Europe and no annual fee.

The Group also offers a business overdraft for certain Business Banking customers, via the mobile application or their local business manager. Customers are able to apply for lending of up to £60,000 and receive an instant decision on their application, with funds being made available within 24 hours.

***Asset Finance and Invoice Finance***

The Group, through its Invoice Finance and Asset Finance businesses, offers invoice discounting, factoring, asset based lending and asset finance services to its Business Banking and Commercial Banking customers. These portfolios have grown from £301 million as at 1 January 2020 to £435 million as at 30 June 2023.

*Asset Finance*: the Group offers financing to fund purchases of certain assets such as plant, machinery and vehicles. Asset finance allows a Business Banking or Commercial Banking customer to enjoy the immediate use of purchased assets while spreading the cost of the purchase, helping customers improve their working capital and preserve existing lines of credit.

The Group provides asset finance facilities to non-regulated customers, including limited companies, partnerships, sole traders (purchasing business assets) and high net worth individuals. Most of the business is typically introduced via third party brokers with the balance coming from Business and Commercial customers. Credit checks are carried out on the business at the on-boarding stage and the proposal is assessed against the Group's credit standards. The deal structure, including level of deposit needed and term requested (which is usually up to 5 years but can be up to 84 months for some customers), is determined by the business's financial position and the underlying asset.

The Group offers a mix of hire purchase and finance lease products for both new and used assets, placing a financial interest against each asset financed. The Group may seek an independent expert valuation before determining the amount that it will finance. If a customer already owns their plant and machinery, the Group can look to offer a refinance facility of up to 80 per cent of the asset's current valuation. In 2022,

intermediaries originated 80 per cent. of the Group's business in asset financing, with the remaining business coming from its own internal channels.

*Invoice Finance*: the Group offers Business Banking and Commercial Banking customers the ability to borrow against outstanding invoices issued by the borrower to its customers, both through factoring and invoice discounting. Under factoring arrangements, which are typically offered to smaller businesses without a dedicated sales ledger management function, the Group will typically advance up to 90 per cent. of the value of approved invoices, with the Group's credit control team taking responsibility for the collection of the borrower's outstanding invoices. Under invoice discounting arrangements, which are typically offered to larger businesses with an effective accounts management function, the Group will typically advance up to 90 per cent. of the borrower's outstanding sales ledger, and the borrower remains responsible for collecting outstanding debt from its customers. In addition, through its asset-based lending offering, the Group can also provide funding against the other assets owned by a business, including stock, plant and machinery and property, alongside an invoice discounting facility.

In 2022, intermediaries originated 26 per cent. of the Group's business in invoice financing, with the remaining business coming from its own internal channels.

### Partnership Banking

Through its Partnership Banking, the Group offers specialist banking products for the financial services intermediary market, including portfolio lending, partner loans and specialist retail partnership and platform deposit solutions. Partnership Banking also manages Funding Circle accounts.

The Group accepts specialist cash deposits from pension providers by providing Self Invested Personal Pensions ("**SIPPs**") and Small Self-Administered Scheme ("**SSAS**") deposit solutions (typically instant access and deposit accounts), participates on a number of savings panels promoted via investment platforms, and offers customer portfolio lending to various wealth managers. The dedicated Partnership administration team at the Group comprises experienced banking administrators with expertise in the administration of cash deposits from retail partnership providers, investment platforms and trusts.

### C&I Grant

On 22 February 2019, the Group was awarded a grant from the C&I Fund, a scheme funded by RBS and designed as part of measures agreed between RBS, the Government and the European Commission to encourage competition in the SME banking market in the wake of the 2008 financial crisis and the aid that RBS received from the Government at that time. The Group's grant funding currently stands at £70 million. The C&I Fund is managed by the BCR, an independent fund administrator to which the Group submitted a contractually binding business plan during its bid for a grant from the C&I Fund.

The Group intends to use its C&I Fund funding to win 70,000 new business current account customers by 2025, based on Frontier Economics' calculations, thereby increasing its business current account market share to 4.2 per cent. by 2025, serving more than 238,000 customers. It intends to use these funds to broaden its proposition to SMEs and enable it to compete more effectively with, and be a stronger challenge constraint to, the current major SME banking providers in the UK. More particularly, the remaining C&I funding will be focused on the following three priority areas:

- *Accelerating national store coverage:* the Group currently intends to extend its reach by opening a further 11 stores in the North of England by 31 December 2025.
- *Launching digital innovations to drive scale:* The Group intends to further develop its digital ecosystem of services to address critical SME needs by adding 'MPay' alongside its existing services for SMEs, including receipt capture, invoice creation and integration into a range of bookkeeping and accounting platforms. 'MPay' is intended to be a market-leading platform that will automate receivables and reconcile payments for SMEs by providing an integrated range of services to improve cash flow and save businesses time on back-office administration.
- *Building capabilities to serve larger and more complex SMEs:* beyond the range of new lending, payments and cash management services already delivered to businesses through the C&I Fund, the Group plans to update its business credit card capabilities.

The Group has already launched the majority of the new digital platforms and services for SMEs within the business plan and has comfortably met its commitment to fund at a 2:1 ratio of its own funds to funds from the C&I Fund.

**Information technology**

The Group benefits from a modern IT infrastructure comprising industry-standard systems that are configured to meet the Group's requirements, providing the Group with a flexible, reliable and secure platform. The Directors believe that this infrastructure is scalable such that it can expand to support future growth with appropriate ongoing investment, and the Directors expect to continue to invest in modern technology.

The Group's IT infrastructure is crucial to its customer proposition, particularly to its ability to open new customer accounts quickly and seamlessly while simultaneously performing necessary background checks on applicants. The Group uses Temenos software for core banking services (T24) and Microsoft for CRM and Marketing (Dynamics), Management Information (PowerBI) and internal communications (Yammer) and Backbase for its Commercial online banking channels. In July 2019, the Group upgraded T24, its core banking platform with the new version providing increased business capability and operational resilience. See "*Risk Factors—Risks relating to the operation of the Group's business—The Group is exposed to operational risks in the event of a failure of its IT systems, and the Group relies on third parties for significant elements of its IT and other middle and back office processes*".

The Group's IT systems are hosted in two state-of-the-art data centres that have sufficient capacity to independently run all systems with zero degradation to service levels in the event of a data centre failure. Architectural design principles have guided the build of a highly available, stable, secure and performant infrastructure that seamlessly scales in-line with business growth. Wherever possible business critical systems run continuously out of both data centres at the same time (live/live) to achieve the lowest possible recover times.

The Group has carefully invested in key strategic technologies to support business growth. In addition, the Group's scalable SaaS IT model supports this cost-effective growth by allowing it to service additional customer accounts, with only marginal increases in costs. Oracle platforms host critical application databases and enterprise class IBM software enables efficient system integration, as well as Operational Data Store and Data Warehousing capabilities. The Group continues to invest in IT security, customer relationship management, payments, regulatory compliance, risk management and treasury capabilities. In addition, the Group expects to make further investments in its customer-facing digital channels to support the growing use of mobile and tablet devices by consumers at the same time as driving cost efficiency by using offshoring and nearshoring opportunities.

The Group is also investing in digital capabilities, namely Kafka, Mongo, Snowflake and Kong. These technologies allow the Group to develop richer connectivity across its systems, enhanced data ingestion and consumption and introduce APIs across the Group technology estate and into third parties, respectively. In addition, the Group is seeking to increasingly utilise cloud services to host its data. For example, a cloud based portal was created in 2023 as an efficient way to monitor the controls environment.

**Environmental, Social and Governance ("ESG")**

The Group seeks to incorporate ESG priorities into its business. Oversight of ESG matters sits with the Boards and Executive Committee, and is also overseen by GROC and ROC. A dedicated ESG steering committee was put in place in early 2022.

The Group's key areas of ESG focus are:

- *FANS and the community*: issues of customer services and experience; financial inclusion, literacy and education; supporting vulnerable customers; and community engagement;
- *Colleagues*: colleague attraction, training and development, colleague engagement, health, safety and wellbeing and diversity, equality and inclusion;
- *Data privacy and security*: data privacy and cyber security, as well as financial crime and fraud;
- *Suppliers*: supply chain engagement and responsible procurement; human rights and modern slavery issues; and anti-bribery and corruption;
- *Governance and resilience*: good governance practices, ethics and compliance and risk management and business resilience; and
- *The planet*: climate change, operational environmental efficiency, responsible investment and stewardship and sustainable product innovation.

In line with its community banking ethos and overall approach to ESG matters, the Group's policy is not to extend lending directly to businesses that undertake (i) metal ore mining, coal mining, peat extraction or oil

and gas extraction, (ii) fossil fuel power generation, (iii) deforestation or (iv) arms manufacturing or military activities.

The Group is also committed to reporting on the impact of climate change on its business in a transparent manner and taking responsibility for the actions required to make positive changes to reduce its impact on the environment. As such, it reports its climate-related financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**") and the requirements of the PRA's Supervisory Statement 3/19. In this regard, the Group's strategy is to identify and manage the impact of climate change on its business, support its customers' transition to a low-carbon economy and reduce the impact that it has on the environment, through focusing on both its own operations and the operations of its suppliers. Accordingly, the Group is reviewing energy efficiency measures across all its sites, and is considering all options and ideas regarding lighting, heating and cooling with the objective of delivering the best value for money. In 2022, the Group fully transitioned to only purchasing electricity generated from renewable sources.

The Boards have ultimate accountability for all climate change risk-related matters, and during 2022, were engaged in the development of the Group's approach to ESG. The management team also plays a role in assessing and managing climate-related risks and opportunities, and climate change-related issues are considered in various management committees, including the Environment Working Group. Climate change-related issues are considered as part of the Group's broader risk management function, and it has assessed that these issues are relevant for its credit risk, capital and liquidity risk and operational risk.

The Group's climate change goals are anchored in its ambitions to achieve net zero emissions from its own operations by 2030, and to drive material reductions in the climate impact of this financing activity and value chain by 2050.

The Group's emissions for the years ended 31 December 2020, 2021, and 2022 are as set out below;

| | **As at 31 December** | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| Scope 1 emissions | 67 | 336 | 179 |
| Scope 2 emissions (location based) | 3,799 | 3,327 | 2,855 |
| Scope 2 emissions (market based) | 729 | 1,194 | — |
| Scope 3 emissions (core)[(1)] | n/a | n/a | 1,397 |
| Scope 3 emissions (enhanced) | 190,333 | 155,182 | 129,363 |
| Total emissions (location based) | 194,199 | 158,845 | 132,397 |
| Total emissions (market based) | n/a | 156,712 | 129,542 |
| Full-time equivalent colleagues ("FTE") | 3,850 | 4,184 | 4,040 |
| Total emissions per FTE | 50.4 | 38.0 | 32.8 |

Note:
(1) Covers emissions arising from purchased paper, fuel and energy related activities, water generated in operations and business travel.

### Intellectual property

The *Metro Bank* trade name, logo and website are key elements of the *Metro Bank* brand. The Group has acquired the trademark "Metrobank" and its logo in the UK but does not hold the trademark for the "Metro Bank" name. For further discussion on this, see "*Risk Factors—Risks relating to the operation of the Group's business—The Group relies on the success of its brands, and it is subject to reputational harm that could damage its brands*".

In addition, the trade name and other intellectual property rights relating to the *RateSetter* brand have now been assigned to and belong to the Group.

### Insurance

The principal risks covered by the Group's insurance policies relate to property damage, business interruption, employers and public liability and certain other claims consistent with customary practice in the banking industry. The Group purchases its insurance through well-known providers and, aside from ongoing insurance claims relating to the RWA matter, has not had any material insurance claims, nor has it suffered any material loss following any uninsured claim, in the periods under review.

**Colleagues**

As at 30 June 2023, the Group had 4,266 colleagues on a full-time equivalent basis (31 December 2022, 4,040), approximately 33.3 per cent. of whom worked in the Group's stores. The Group has assembled a Board and Executive Leadership team with high-quality experience of leadership and operational positions in the banking and retail sectors. For more details about the Group's leadership, please see *Directors, Senior Managers and Advisers.*

# PART III

# SUPERVISION AND REGULATION

## UK Regulatory Bodies

Metro Bank, as a retail bank operating in the UK, the Company and the Group fall under the ambit of UK banking regulators and regulation.

## The Prudential Regulation Authority, the Financial Conduct Authority and the Financial Policy Committee (the "FPC")

Under the Financial Services Act 2012 (the "**FSA 2012**"), a range of structural reforms to UK financial regulatory bodies was implemented, with the Financial Services Authority (for the purposes of this Part III, the "**FSA**") being replaced from 1 April 2013 by the following bodies: (i) the PRA; (ii) the FCA; and (iii) the FPC.

The PRA has responsibility for micro-prudential regulation of deposit-takers (including banks, building societies and credit unions), insurers and investment firms that have the potential to present significant risks to the stability of the financial system and that have been designated for supervision by the PRA.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions.

Metro Bank is authorised by the PRA and regulated by the FCA and the PRA. The Company is a UK financial holding company supervised by the PRA.

The FPC, which is an independent committee within the Bank of England, is tasked with the primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the Government, including its objectives for growth and employment.

For the purposes of this Part, the terms "**Relevant Regulator**" and "**Relevant Regulators**" refer, as the context requires, to one or more of the PRA, the FCA and/or the FPC.

### *The PRA's general objective*

In discharging its general functions, the PRA's general objective is promoting the safety and soundness of PRA-authorised firms. The PRA is required to advance this objective primarily by seeking to:

- ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

Additionally, the Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act**") has amended the PRA's general safety and soundness objective to incorporate certain matters related to ring-fencing requirements and the bodies subject to them.

When discharging its general functions in a way that advances its objectives, the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities.

### *The FCA's objectives*

When discharging its general functions of rule-making, preparing and issuing codes under FSMA, giving general guidance or determining general policy and principles, the FCA must, so far as is reasonably possible, act in a way which is compatible with its strategic objective of ensuring that relevant markets function well, and which advances one or more of its operational objectives of:

- securing an appropriate degree of protection for consumers (the consumer protection objective);
- promoting effective competition in the interests of consumers in financial markets (the competition objective); and
- protecting and enhancing the integrity of the UK financial system (the integrity objective).

So far as is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers.

Changes to the PRA and FCA's objectives are due to come into effect as a result of the Financial Services and Markets Act 2023, which received Royal Assent on 29 June 2023. The Act includes (a) a new competitiveness and growth objective and (b) a new zero emissions target principle for both regulators.

### The Government

The Government has no operational responsibility for the activities of the PRA, the FCA or the FPC. However, the PRA, the FCA and the FPC are accountable to Parliament and, in addition to periodic reporting requirements, there are a variety of circumstances when the PRA, the FCA and the FPC will need to report to HM Treasury (as the representative of the Government) about certain events. For example, the PRA must report where events have occurred which had or could have had a significant adverse effect on the safety or soundness of one or more persons authorised by the PRA, and the FCA must report where there has been a significant regulatory failure to secure an appropriate degree of protection for consumers.

### The Financial Ombudsman Service (the "FOS")

The FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money awarded by the FOS is £415,000 for complaints received by the FOS on or after 1 April 2023 in regard to acts or omissions by firms on or after 1 April 2019 plus interest and costs. The FOS may also make directions awards which direct the relevant business to take steps which the FOS considers just and appropriate.

## UK Regulation

### Overview of UK financial services regulation

#### *Financial Services and Markets Act 2000*

The cornerstone of the regulatory regime in the UK is the FSMA, which received Royal Assent on 14 June 2000 and came into force in 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been heavily influenced by European Union legislation.

The FSMA prohibits any person from carrying on a "regulated activity" (as defined in the FSMA) by way of business in the UK, unless that person is authorised or exempt under the FSMA (the "**General Prohibition**"). Regulated activities include deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), effecting and carrying out contracts of insurance, insurance mediation, consumer credit activities and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and advising on or managing investments). The FSMA also prohibits the communication of an invitation or inducement to engage in investment activity (a "**financial promotion**") in the UK, unless the financial promotion is issued or approved by an authorised firm or is exempt from such requirements.

The Relevant Regulators are responsible for the authorisation and supervision of institutions that provide regulated activities in the UK. Metro Bank is authorised by the PRA and regulated by the FCA and the PRA with permission to undertake, among other things, deposit-taking and mortgage activities. Authorised firms must at all times meet certain "threshold conditions" specified by the FSMA, which were modified to reflect the new regulatory structure under the FSA 2012. Dual-regulated firms, such as Metro Bank, need to meet both the PRA's threshold conditions and the FCA's threshold conditions. The FCA threshold conditions applicable to PRA-authorised firms are, at a high level, that: (i) the firm is capable of being effectively supervised; (ii) the firm maintains appropriate non-financial resources; (iii) the firm itself is fit and proper, having regard to the FCA's operational objectives; and (iv) the firm's strategy for doing business is suitable, having regard to the FCA's operational objectives. At a high level, the PRA threshold conditions require: (a) a firm's head office and, in particular, its mind and management to be in the UK if it is incorporated in the UK; (b) a firm's business to be conducted in a prudent manner and, in particular, that the firm maintains appropriate financial and non-financial resources; (c) the firm itself to be fit and proper, having regard to the PRA's objectives and appropriately staffed; and (d) the firm to be capable of being effectively supervised. Related to this, the PRA must formally approve persons who intend to become "controllers" of Metro Bank (or who intend to increase their control over Metro Bank in a way which results in them falling into a different threshold of control) and must be kept informed of the persons who

are controllers of Metro Bank and closely-linked persons of Metro Bank. A controller of Metro Bank is broadly any person who, whether acting alone or "acting in concert" holds 10 per cent. or more of the shares or voting power in Metro Bank or a parent undertaking of Metro Bank or anyone who holds shares or voting power in Metro Bank or a parent undertaking of Metro Bank as a result of which they are able to exercise significant influence over the management of Metro Bank. As the holding company of Metro Bank, the Company is required to meet certain prudential regulatory requirements applicable to the Group on the basis of the Group's consolidated situation. The PRA has approved the Company as a controller and holding company of Metro Bank.

In addition, persons holding certain specified functions within Metro Bank (including governance functions) require the prior approval of the PRA or the FCA (depending on the particular function) before they can perform the role. A senior managers regime for individuals who are subject to regulatory approval came into force in March 2016 in the UK. It requires firms to allocate a range of responsibilities to these senior individuals and to regularly assess their fitness and propriety. In addition, a certification regime was introduced under which relevant firms are required to assess the fitness and propriety of certain employees who could pose a risk of significant harm to the firm or any of its customers.

***Financial services regulatory source materials***

The FSMA (as amended by the FSA 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and guidance made by the FCA under the powers given to it by the FSMA are contained in the "**FCA Handbook**" which is based, to a large degree, on those provisions of the old FSA Handbook relevant for FCA regulated firms amended as necessary. The PRA has moved away from the legacy handbook material it adopted from the FSA and the detailed rules and guidance made by it under the powers given to it by the FSMA (which apply only to PRA authorised firms) are now largely contained in the "**PRA Rulebook**", as well as the supervisory statements and statements of policy which the PRA issues from time to time. Many of these PRA and FCA source materials were shaped by European legislation, though certain directly applicable regulatory aspects of European legislation were also retained after Brexit and so apply in addition to, and must be read with, the FCA and PRA published materials (in particular refer to the prudential regulatory regime under "*Capital adequacy, prudential regulation and the European regulatory landscape*", below).

Once authorised, and in addition to continuing to meet the threshold conditions (the minimum standards for becoming and remaining authorised), firms are obliged to comply with the FCA's Principles and, if a dual-regulated firm, the PRA's Fundamental Rules, which include requirements to conduct their business with due skill, care and diligence; treat customers fairly; and communicate with customers in a manner that is clear, fair and not misleading. The Principles and Fundamental Rules are set out in the FCA Handbook and PRA Rulebook respectively.

In addition, the FCA published final rules relating to the Consumer Duty, including a new Principle, which requires firms to act to deliver good outcomes for retail customers. The Consumer Duty regime also sets "cross-cutting rules", which explain how firms should act to deliver good outcomes and apply to all areas of firm conduct as well as the "four outcomes", which set more detailed expectations for firm conduct in relation to: (i) the governance of products and services; (ii) price and value; (iii) consumer understanding; and (iv) consumer support. The new rules apply from 31 July 2023 to new and existing products or services (see "*Risk Factors—Regulatory risks relating to the Group's business—The Group operates in a highly regulated industry that has come under increased regulatory scrutiny in recent years*").

Other parts of the FCA Handbooks and PRA Rulebook and other source materials which are of particular relevance to the Group include the Senior Management Arrangements, Systems and Controls sourcebook, the Consumer Credit sourcebook (or "**CONC**"), the Banking Conduct of Business sourcebook, the Insurance: Conduct of Business sourcebook (or "**ICOBS**"), the Mortgages and Home Finance: Conduct of Business sourcebook (or "**MCOB**"), the Supervision sourcebook (or "**SUP**") and the Dispute Resolution: Complaints sourcebook (or "**DISP**") and those materials which deal with prudential capital, liquidity and the leverage ratio requirements (see "*Capital adequacy, prudential regulation and the European regulatory landscape*", below).

On 20 July 2022, the Financial Services and Markets Bill 2022-23 (the "**Bill**") was introduced to Parliament. The Bill included provisions which allow for significant changes to the structure of financial services regulatory source materials, including allowing for the repeal and replacement of retained EU law relating to financial services. The Government expects that over time, UK regulators will replace most of the repealed EU-derived law with UK regulators' rules. However, HM Treasury has retained the power to

restate parts of retained EU law in primary or secondary legislation with modifications. The Bill received Royal Assent as the Financial Services and Markets Act 2023 on 29 June 2023.

***Supervision***

Each of the PRA and the FCA has wide powers to supervise and, where necessary, intervene in the affairs of an authorised firm. These powers were extended under the FSA 2012.

The nature and extent of a Relevant Regulator's supervisory relationship with a firm depends on how much of a risk the Relevant Regulator considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a firm failing and on ensuring that it is prepared so that if it does fail, it does so in an orderly manner. The PRA has introduced the "Proactive Intervention Framework" to support early identification and response to risks to a firm's viability (and enable appropriate supervisory actions to be taken to address such risks if necessary) on the basis of information collected.

The Relevant Regulators will undertake a range of supervisory activities and have a range of statutory powers they can exercise in their work to promote the safety and soundness of authorised firms. For instance, they can require authorised firms to provide particular information or documents to them, require the production of a report by a "skilled person" (as defined in the glossary to the FCA Handbook and PRA Rulebook), appointed by either the authorised firm or the Relevant Regulator, or formally investigate an authorised firm. The PRA, where it will advance any of its objectives, and the FCA, where it will advance one or more of its operational objectives, have a broad power of direction over qualifying unregulated parent undertakings.

***Enforcement***

The Relevant Regulators have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. The sanctions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an individual's approval to perform particular roles within a firm. The Relevant Regulators can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months (in certain cases, six months), or that fails to meet the threshold conditions.

***Challenging the PRA/FCA***

If the Group wanted to challenge enforcement or supervisory decisions of the PRA or FCA, then in many cases it could make formal representations and also bring a case to the Upper Tribunal (Tax and Chancery Chamber) (the "**Tribunal**"). The UK regulatory structure introduced under FSA 2012 made a number of amendments to the Tribunal's rules. Although the grounds for making a reference have remained unchanged, the courses of action available to the Tribunal in the event that it disagrees with the PRA or FCA were changed. Under the previous system, the Tribunal had the power to make its own decision in place of one made by a regulator with which it disagreed. That remains the position for a disciplinary reference or a reference in connection with specific third-party rights, but the Tribunal no longer has the power to substitute its own decision for that of the regulator in any other case and will instead be required to remit the decision to the Relevant Regulator with a direction to reconsider.

**Capital adequacy, prudential regulation and the European regulatory landscape**

Capital adequacy is the concept that a bank should have a certain amount of "regulatory capital" which is adequate to meet the risks associated with the business carried on by it and which provides a buffer of value that can, if necessary, absorb losses. This is generally calculated as minimum ratio of total capital to RWAs and is expressed as a percentage. Broadly, capital adequacy regulation started with the Basel Accord, published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in 1988. The Basel Accord was substantially rewritten in 2005, with the introduction of Basel II, which first formulated the three pillars of regulatory capital regulation: (i) Pillar I- minimum capital adequacy requirements for credit risk, market risk and operational risk; (ii) Pillar II- supervisory review; and (iii) Pillar 3- market discipline and disclosure. The key Pillar I rule was a requirement to maintain a minimum capital adequacy ratio of 8 per cent. RWAs. As the Basel standards have no direct legal force, the BCBS expects its members to implement the standard fully into their national law. Both the UK and EU are BCBS members. The Basel framework was implemented in the EU by way of a number of EU Directives and Regulations which are detailed below. As a result of Brexit, the European prudential regime has been largely replicated in the UK through the onshoring of EU prudential rules, although there are limited areas of divergence where the PRA

has chosen to remain in compliance with the underlying Basel standards rather than the EU drafting. Metro Bank is subject to prudential regulation in the UK, where the prudential regulator for banks is the PRA.

***EU Capital Requirements Regulation and Directive***

By 2006, the European regulatory capital regime (which was largely implementing the revised Basel II Accord) was set out in the recast Banking Consolidation Directive and the Capital Adequacy Directive (together the "EU Capital Requirements Directive" or "EU CRD"). After the financial crisis of 2007-2008, the Basel Committee undertook a more fundamental and comprehensive review of the prudential capital regime which resulted in the "Basel III" proposals. A number of the Basel III proposals were finalised in 2011. These proposals included: (i) increased quality and quantity requirements for regulatory capital generally with total capital ratio staying at 8 per cent., but higher CET1 requirement and tougher rules on CET1 eligibility; (ii) new capital buffer requirements to increase a bank's loss absorbing capacity and address systemic and both micro and macroeconomic risks; (iii) increased capital requirements for counterparty credit risk for exposures for derivative and certain other transactions; (iv) the introduction of a new leverage ratio, as a reporting and disclosure requirement; (v) new prudential liquidity rules; and (vi) heightened requirements for global systemically important banks. The leverage ratio is, broadly, a ratio of capital against certain unweighted exposures and is a prudential tool designed to prevent excessive leverage. The liquidity regime introduced an LCR, which addresses short-term liquidity issues by requiring banks to hold a buffer of highly liquid assets to meet cash outflows in a stress period.

These first elements of the Basel III reforms were implemented in the EU through the EU Capital Requirements Regulation ("EU CRR") and the EU Capital Requirements Directive IV ("EU CRD IV") which both came into effect on 26 June 2013. However, a number of the other Basel III reforms were not actually finalised by 2011 and therefore not implemented in the EU through EU CRR/CRD IV. These later Basel III reforms included: (i) a new standardised approach for measuring counterparty credit risk and a revised framework for capital requirements for banks' exposures to central counterparties; (ii) leverage ratio as a Pillar I capital requirement; (iii) a revised framework for large exposures; (iv) revised credit risk rules for exposures to collective investment undertakings; and (v) a binding net stable funding ratio. These further Basel III reforms were implemented in the EU through the Capital Requirements Regulation II ("EU CRR II") and Capital Requirements Directive V ("EU CRD V"), together with a number of other EU specific revisions such as the IPU requirement for third country groups, changes to Pillar 2 rules and the capital stack and holding company authorisation requirements. A small number of the provisions of EU CRR II came into effect on 27 June 2019 including provisions relating to TLAC/MREL, with the majority coming into effect from 28 June 2021, while the EU CRD V had to be implemented by Member States by 28 December 2020. The fast-tracked EU CRR II provisions that were in effect prior to the end of the transition period for Brexit form part of retained EU legislation (UK CRR, as referred to below), whereas the EU CRD V was transposed in the UK within the transposition deadline but most of the amendments were subsequently repealed.

The final set of Basel III reforms contained in the Basel Committee's December 2017 publication, "Finalising Basel III", include: (i) substantial amendments to the standardised and internal ratings based approach for credit risk as well as operational risk rules; (ii) an output floor to limit the regulatory capital benefit of banks using internal model approaches compared to the standardised/non-model approaches to calculate credit, market and operational risk; and (iii) introduction of the fundamental review of the trading book market risk rules. These various reforms, sometimes referred to as Basel 3.1/Basel IV, are due to be implemented in the EU from 1 January 2025, which is a two-year delay to the Basel Committee's implementation date of 1 January 2023. The European Commission recently published its proposed rules to implement Basel IV by way of a Regulation amending EU CRR II and a Directive amending EU CRD V (known as EU CRR3). As the UK is no longer a member of the EU, the UK will not implement these proposals; and the PRA has separately published its proposed rules implementing the Basel 3.1 standards in the UK on 30 November 2022 (CP16/22 – Implementation of the Basel 3.1 standards). For more information in respect of the UK implementation of Basel 3.1/Basel IV see "*—EU CRR/EU CRR II post-Brexit and current UK prudential regulatory regime*".

***EU CRR/EU CRR II post-Brexit and current UK prudential regulatory regime***

The current UK bank prudential framework reflects the EU bank prudential requirements that applied at the point when EU law ceased to apply in the UK at the end of the Brexit transition period, on 31 December 2020, as well as further rules made by the PRA pursuant to their powers under the Financial Services Act 2021, including PRA rules implementing the Basel III reforms contained in CRR II, which came into force on 1 January 2022. Metro Bank is subject to the prudential rules contained in the onshored version of

the EU CRR, known as "UK CRR". UK CRR is supplemented by: (i) the onshored EU law versions of the delegated acts and implementing regulations made under EU CRR; and (ii) the PRA Rulebook for CRR firms, as well as PRA guidance in the form of Supervisory Statements. Onshoring refers to the process of amending pre-existing EU regulations which are directly applied in the UK before the end of the transition period for Brexit and making amendments to domestic law in the UK transposing EU directives to ensure that they continue to operate on a UK only basis. EU CRR was onshored through various statutory instruments made under the European Union (Withdrawal Agreement) Act 2018 (and European Union (Withdrawal Agreement) Act 2020).

The UK used its discretion not to implement those EU CRR II rules which applied in the EU from June 2021 (so after the end of the transition period), instead choosing to introduce prudential reforms directly implementing the Basel standards (on which EU CRR II was based), using the powers given to it under the Financial Services Act 2021. Subsequently, HM Treasury was empowered to delete parts of UK CRR from onshored legislation, and the PRA restated those rules (with amendments, where relevant) in the PRA Rulebook. The UK Basel III rules are therefore similar but not identical to the EU CRR II drafting. The Basel III reforms have applied to UK banks from 1 January 2022 through detailed requirements set out in the PRA Rulebook (CRR firms) and other PRA supervisory materials. The prudential requirements for banks are, therefore, set out in a mixture of PRA rules and primary legislation in the form of those provisions of UK CRR that remain in force. The ultimate aim of HM Treasury is to transfer the bulk of the provisions in UK CRR to the PRA Rulebook. This will allow the PRA more flexibility to change or dispense with rules. As regards the implementation in the UK of the final Basel III reforms (i.e., Basel IV), the PRA has confirmed that, similar to the EU, it will delay the implementation date by two years, from 1 January 2023 to 1 January 2025 and separately published its proposed rules implementing the Basel 3.1 standards in the UK on 30 November 2022 (CP16/22 – Implementation of the Basel 3.1 standards). On 27 September 2023, the PRA announced a further delay to 1 July 2025, and announced a reduction of the transitional period to 4.5 years to ensure full implementation by 1 January 2030 in line with the proposals set out in its consultation paper (CP16/22).

***Regulatory capital and risk weighted assets***

The UK capital framework comprises four parts:

- **Pillar 1** – minimum requirements for credit risk, market risk and operational risk including a CET1 Capital ratio of 4.5 per cent., a Tier 1 capital ratio of 6 per cent. and a total capital ratio of 8 per cent.
- **Pillar 2A** – requirements imposed by the PRA to reflect the status of risks either not addressed or only partially addressed by the Pillar 1 requirements (e.g., pension risk or group risk)
- **CRD capital buffers** – these comprise: (i) the capital conservation buffer equal to CET1 of 2.5 per cent. of a firm's total risk exposure amount; (ii) the countercyclical capital buffer of CET1 equal to a firm's total risk exposure amount multiplied by an institution-specific countercyclical capital buffer rating ((i) and (ii) together being the Combined Buffer Requirement). The UK's countercyclical buffer ratio has increased from 1 per cent. to 2 per cent. from 5 July 2023. In addition, there are systemic buffers such as the Global Systemically Important Institutions or Other Systemically Important Institutions buffer which do not apply to the Group. If the Combined Buffer Requirement is not met, a bank is required to restrict its distributions in accordance with the maximum distributable amount calculation.
- **PRA buffer** – the PRA can require a firm to hold a PRA buffer, which is an amount of capital that firms should hold in addition to their total capital requirement (Pillar 1 and Pillar 2A) to cover risks not covered elsewhere and losses that may arise under stress. The PRA buffer is confidential and non-disclosable.

Pillars 1 and 2A together represent the PRA's view of the minimum level of regulatory capital a firm should maintain at all times to cover the risks to which it is exposed and to comply with the overall financial adequacy rule. For information about solo and consolidated application of these requirements, see "*—Levels of application*" below.

***Leverage ratio framework***

The PRA's leverage ratio framework originally applied as a Pillar 1 requirement to the eight largest UK banks and building societies with retail deposits in excess of £50 billion and as a reporting requirement to other UK banks. However, from 1 January 2023, the Pillar 1 UK leverage ratio rules were extended

to: (i) apply to a wider range of firms including firms, RFB sub-groups and UK CRR consolidation entities with non-UK assets equal to or greater than £10 billion (calculated on an individual, sub-consolidated and consolidated basis respectively); and (ii) to apply the leverage ratio requirement on an individual basis to any firm that is not a UK CRR consolidation entity or a ring-fenced body ("**RFB**") that is the ultimate parent within an RFB sub-group. The framework comprises a number of key elements:

- A 3.25 per cent. leverage ratio minimum requirement, denominated in Tier 1 capital, that must be met with at least 75 per cent. CET1 capital.
- An additional leverage ratio buffer to reflect systemic importance and a countercyclical leverage ratio buffer. These buffers are scaled at 35 per cent. of their risk weighted equivalents and must be met with CET1 capital.

Metro Bank (on a solo basis) and the Company (on a consolidated basis) are not subject to a binding leverage ratio as Metro Bank does not fall within the categories above. However, Metro Bank on a solo basis and the Group on a consolidated basis are subject to the leverage ratio as a reporting requirement and are in practice expected to comply with the 3.25 per cent. leverage ratio requirement.

***Liquidity requirements***

Metro Bank is subject to both a binding Pillar 1 NSFR and an LCR. The NSFR requires a bank to hold long term stable funding for its longer term assets and not to rely on short-term wholesale funding. A bank's NSFR ratio must be at least 100 per cent. on an ongoing basis. The LCR is designed to ensure that banks have the necessary liquid assets, easily convertible into cash, to withstanding short-term idiosyncrasies and market-wide liquidity stress. A bank is required to hold an amount of high-quality liquid assets equal to or greater than their net cash outflows over a 30-day period. The liquid asset buffer should enable a firm to withstand a range of severe stress scenarios. Firms may drawdown their liquid assets buffer in times of stress.

***Levels of application***

The Group constitutes a consolidation group for UK CRR purposes headed by the Company. Prudential regulatory consolidation refers to group supervision and application of prudential regulatory requirements on the basis of a regulated group's consolidated situation (i.e., taking into account the balance sheets of all entities within the scope of the consolidation group). In other words, the capital, liquidity, large exposures and other prudential regulatory requirements in UK CRR (discussed above) will apply both on the individual level of Metro Bank and on the consolidated level of the Company. References to Metro Bank above should, therefore, be construed on this basis.

For more information on how the capital and liquidity regime applies to the Group see "*Risk Factors—Regulatory risks relating to the Group's business—The Group is subject to prudential regulatory capital and liquidity requirements (applying both at the level of Metro Bank (on a solo basis) and at the level of the Company (on a consolidated basis)*".

**Recovery and resolution**

***Banking Act 2009 and BRRD***

Following the 2008 financial crisis, the Banking Act 2009 (the "**Banking Act**") was introduced in the UK to provide a bespoke framework to facilitate the resolution of banks which, broadly, are failing or are likely to fail to meet their regulatory threshold conditions and which cannot be assisted through normal regulatory action or market-based solutions. The legislation conferred significant new powers on HM Treasury, the Bank of England (as the resolution authority in respect of UK Resolution Entities) and, originally, the FSA (now the PRA and FCA) to deal with and stabilise banks suffering financial difficulties by placing them into what is referred to as a resolution pursuant to the special resolution regime (the "**SRR**"). It also established two new insolvency procedures for banks.

Work in a similar vein was also ongoing at the European level and resulted in the Bank Resolution and Recovery Directive 2014/59/EU (the "**BRRD**"). The BRRD rules were largely implemented in the UK with effect from January 2015 (except in relation to certain requirements including the contractual recognitions of bail-in which came into force in January 2016) through amendments to the Banking Act (see section immediately below). In summary, bail-in relates to the mandatory write-down or conversion of non-excluded liabilities.

*BRRD was amended by BRRD II (Directive (EU) 2019/879), which the UK was required to transpose by 28 December 2020. The main reform was to implement the Financial Stability Board's total loss absorbing capacity ("**TLAC**") standards, as well as amendments to requirements on the contractual recognition of bail-in, and requirements on the contractual recognition of resolution stay powers. BRRD II was implemented in the UK within the transposition deadline above with certain amendments (such as those relating to Article 55 BRRD) being subsequently repealed in the UK.*

***Banking Act – Summary of the SRR***

Under the Banking Act substantial powers are granted to the Authorities as part of the special resolution regime (the "**SRR**"). These powers enable the Authorities to engage with and stabilise, amongst other entities, UK-incorporated institutions subject to the Banking Act (i.e., UK-incorporated institutions authorised to accept deposits and PRA-designated investment firms) (the "**UK Resolution Entities**") when the resolution conditions are satisfied (including when a UK Resolution Entity is failing, or is likely to fail, to satisfy the threshold conditions defined in section 55B of the FSMA) and certain policy objectives are met. The SRR provides for five resolution tools referred to as "stabilisation options", that can be used by the Bank of England as the resolution authority in respect of UK Resolution Entities: (i) the "bail-in" tool; (ii) the "transfer to a private sector purchaser" tool; (iii) the "bridge institution" tool; (iv) the transfer to an "asset management vehicle" tool; and (v) the transfer to temporary public ownership tool. These can be used separately or in combination and are complemented by a number of ancillary resolution powers (including early intervention measures).

The SRR also provides the Bank of England as the resolution authority in respect of the UK Resolution Entities with: (i) powers to impose early intervention measures before a UK Resolution Entity is failing or is likely to fail; and (ii) various resolution powers, including the power to: (a) take control of a UK Resolution Entity under resolution and exercise all the rights and powers conferred upon the shareholders, other owners and the management body of the UK Resolution Entity, or remove or replace the management body and senior management of the UK Resolution Entity; (b) transfer all or some of the shares or other instruments of ownership issued by, or some or all of the assets, rights or liabilities of (which may include instruments issued by), a UK Resolution Entity under resolution; (c) reduce, including to zero, the principal amount of or outstanding amount due in respect of eligible liabilities (i.e., not excluded liabilities) of a UK Resolution Entity under resolution, or convert such liabilities into ordinary shares or other instruments of ownership of that UK Resolution Entity; (d) cancel debt instruments issued by a UK Resolution Entity under resolution (other than secured or other excluded liabilities); (e) reduce, including to zero, the nominal amount of shares or other instruments of ownership of a UK Resolution Entity under resolution and cancel such shares or other instruments of ownership; (f) require a UK Resolution Entity under resolution to issue new shares or other instruments of ownership or other capital instruments, including preference shares and contingent convertible instruments; (g) except for secured or other excluded liabilities, amend or alter the maturity of debt instruments and other eligible liabilities issued by a UK Resolution Entity under resolution or amend the amount of interest payable under such instruments and liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and/or (h) close out and terminate financial contracts or derivatives contracts. In addition, as the Bank of England has the power to suspend termination and payment rights under a UK Resolution Entity's contracts with certain third parties (including financial contracts) for up to two working days.

Further, on a UK Resolution Entity's entry into resolution, the Bank of England has the power to: (i) remove rights to acquire further shares or other instruments of ownership in the UK Resolution Entity; (ii) discontinue the listing of securities issued by the UK Resolution Entity; (iii) cancel or modify the terms of a contract to which the UK Resolution Entity under resolution is a party or substitute a recipient as a party; and/or (iv) provide for continuity arrangements necessary to ensure that the resolution action is effective and, where relevant, the business transferred may be operated by the recipient.

***The Group's bail-in strategy***

There are broadly three resolution strategies (i.e., strategies to implement the resolution tools discussed above): (i) "*modified insolvency process*" under Part 2 of the Banking Act – for those institutions which the Bank of England (as the resolution authority in respect of UK Resolution Entities) considers not to provide services of a scale considered critical and for which it is considered that a pay-out by the Financial Services Compensation Scheme ("**FSCS**") of covered depositors would meet the Bank of England's resolution objectives; (ii) "*partial transfer*" – for those institutions which the Bank of England considers to be too large for a modified insolvency process but where there is a realistic prospect that critical parts of the business could be transferred to a purchaser; and (iii) "bail-in" – for the largest and most complex

institutions, which will be required to maintain sufficient MREL resources to absorb losses and, in the event of their failure, be recapitalised so that they continue to meet the PRA's conditions for authorisation and the institution (or its successor) is able to operate without public support. The Bank of England has confirmed that the preferred resolution strategy for the Group is a bail-in strategy with a single point of entry at the level of the Company. However, bail-in powers could also be exercised at the level of Metro Bank. In addition, the Bank of England maintains flexibility to change the Group's resolution strategy and apply a different stabilisation option if it would be more efficient in the circumstances such as the transfer to a private purchaser. In particular, per paragraph 4.2 of the MREL SoP, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objectives. For further detail, see "*Risk Factors—Risks relating to the Group if the Transactions do not successfully close*" and "*Risk Factors—Regulatory risks relating to the Group's business—The Company is a parent financial holding company and therefore holders of New Shares are structurally subordinated*".

Bail-in would be expected to result in the reduction or conversion of all or a part of the Company's own funds and other bail-inable liabilities in order to recapitalise the Group and allow for Metro Bank to remain operational throughout the resolution, although the actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, and all available options could be considered by the Bank of England.

The Bank of England must apply the bail-in tool in accordance with a specified bail-in order provided in the Banking Act (and taking into account the insolvency ranking of eligible liabilities). In particular, the Bank of England must write down or convert liabilities broadly in the following order (and the defined terms refer to those used in the Banking Act by cross-reference to the UK CRR): (i) CET1 items; (ii) Additional Tier 1 instruments; (iii) Tier 2 instruments; (iv) capital instruments used towards the MREL and other subordinated debt; and (v) other unsubordinated eligible liabilities. However, the Bank of England must not apply the bail-in tool to certain liabilities including: (a) protected deposits (deposits protected by the UK deposit guarantee scheme (up to a specified limit)); (b) secured liabilities which include most liabilities secured against property or rights, or otherwise covered by collateral arrangements; (c) client money/assets; (d) liabilities to credit institutions and certain investment firms with an original maturity of less than seven days; (e) certain liabilities to settlement systems with a remaining maturity of less than seven days; (f) certain liabilities to central counterparties with a remaining maturity of less than seven days; (g) certain liabilities to employees; (h) certain liabilities to pension schemes; (i) certain liabilities to creditors from the provision of critical goods and services; (j) certain liabilities to the scheme manager to the FSCS; and (k) certain liabilities to entities within the same resolution group. In addition, the Bank of England can make discretionary exclusions from bail-in in specific circumstances.

The Group has large numbers of depositors entitled to FSCS protection, with a significant majority of deposits protected as at 30 June 2023, which means those depositors and the FSCS will get preferential treatment ahead of other unsecured creditors generally. In particular, as described above, deposits subject to FSCS protection are excluded from bail-in (up to the protection limit) and eligible deposits to individuals and SMEs above the FSCS protection are also afforded preferential insolvency treatment (albeit not excluded).

***MREL requirement***

UK banks are required to maintain a minimum amount of MREL. Such MREL resources can be bailed-in to support a recapitalisation or resolution should a firm fail. MREL must be set in line with the provisions of the Banking Act, the Bank Recovery and Resolution (No 2) Order 2014 and relevant banking-related standards, including the Bank of England Statement of Policy (9 January 2022) and MREL UK Technical Standards. The MREL requirement is equal to a percentage of total liabilities and own funds to be set by the Bank of England (or in certain cases calibrated by reference to the leverage ratio). There is no common MREL requirement applicable to all or a category of institutions; for institutions like Metro Bank (i.e., medium-sized banks), MREL is an institution-specific requirement as well as a point in time assessment that is made by the Bank of England, at least annually, and is expected to vary over time. Following discussions with the Bank of England further to the publication of its revised Statement of Policy (published in December 2021 and updating the June 2018 version) (the "**MREL SoP**"), Metro Bank (solo basis) and the Company (consolidated basis) is now subject to its end-state MREL requirement, applicable since 1 January 2023.

For the avoidance of doubt, Metro Bank and the Group are not subject to a binding leverage ratio ("**LR**") requirement (and therefore are not subject to LR-based MREL requirements).

The UK resolution regime requires that MREL must not rank *pari passu* with a significant amount of liabilities which are not MREL-eligible (to avoid any no creditor worse off issues). There are three ways to subordinate MREL to other unsecured liabilities: (i) statutorily (which has been achieved in the UK by amendments to the Insolvency Act 1986 to make sure that MREL ranks below non-preferred, non-subordinated unsecured liabilities and above regulatory capital (i.e., CET1 items, Additional Tier 1 instruments and Tier 2 instruments)); (ii) contractually; or (iii) structurally (by ensuring that MREL is issued by a non-operating, i.e., a "clean" holding company). For bail-in firms/groups with a single point of entry resolution strategy, such as the Group, the Bank of England has requested structural subordination of MREL, i.e., establishing a clean holding company above the operating bank/group that will issue any external MREL to the market. For more information on the application of MREL to the Group, see "*Risk factors—Regulatory risks relating to the Group's business—The Group is subject to MREL requirements (applying both at the level of Metro Bank (on a solo basis) and at the level of the Company (on a consolidated basis))*".

*The Company's (consolidated) and Metro Bank's (solo) own funds and other MREL resources*

As at the date of this document, and subject to the implementation of the written resolutions passed in respect of the Existing Tier 2 Notes and the Existing MREL Notes, the Group's (consolidated) MREL requirement is met by the Company's existing issued CET1, the Existing Tier 2 Notes (as more fully described below) and, following the recent substitution of the Company as principal debtor in the place of Metro Bank, the Existing MREL Notes (until 12 months prior to the maturity date of the Existing MREL Notes, being 8 October 2024).

The Bank of England's Resolution Directorate, in line with the MREL SoP, agreed in July 2023 to provide the Group and Metro Bank an extension to the pre-existing adjustment (first announced by Metro Bank on 9 December 2022) for the Existing Tier 2 Notes. The adjustment currently allows the Group to count the Existing Tier 2 Notes towards the Company's (consolidated) MREL resources and Metro Bank to count the Existing Tier 2 Notes towards Metro Bank's (solo) MREL resources, in each case until 12 months prior to the maturity date of the Existing Tier 2 Notes (being 26 June 2028) whilst remaining at the level of Metro Bank. From 12 months prior to the maturity date of the Existing Tier 2 Notes onwards, only the remaining declining Tier 2 capital value of the Existing Tier 2 Notes are permitted to count towards the Company's (consolidated) MREL resources and towards Metro Bank's (solo) MREL resources. Such adjustment is subject to certain regulatory conditions including making reasonable efforts to issue external MREL at the level of the Company.

Metro Bank's (solo) MREL requirement is currently met by Metro Bank's existing issued CET1, Metro Bank's Existing Tier 2 Notes (as described above) and an internal issuance of MREL debt instruments (on back to back terms with the Existing MREL Notes) to the Company.

The PRA has agreed that the Group may also count the Existing Tier 2 Notes towards the Company's (consolidated) own funds requirement and Metro Bank may count the Existing Tier 2 Notes towards its (solo) own funds requirement. The Existing Tier 2 Notes' eligibility for Tier 2 capital at the level of the Group is currently subject to a haircut, the formula for which is calculated as the proportion of the Company's total capital (Tier 1 plus Tier 2) comprised of Tier 2 held at Metro Bank level, multiplied by the excess of the Company's total capital over the sum of its total capital and Combined Buffer Requirement:

$$\text{Haircut} = \frac{\text{Metro Bank's Tier 2}}{\text{Company's total capital, pre-haircut}} \text{ x } (\text{Company's total capital, pre-haircut} - \text{Company's minimum total capital requirement} + \text{Company's Combined Buffer Requirement})$$

As the Existing Tier 2 Notes do not have a residual maturity of more than five years, the extent to which the Existing Tier 2 Notes qualify as Tier 2 capital at the level of both Metro Bank and the Group has reduced, and will continue to reduce, on a straight line basis over the remaining term.

For the avoidance of doubt, the New Tier 2 Notes' eligibility for Tier 2 capital at the level of the Group will not, upon issue, be subject to the haircut described above.

Following completion of the Transactions, it is expected that the Group's (consolidated) MREL requirement will be met by the Company's issued CET1 (including the New Shares), the New Tier 2 Notes and the New MREL Notes (until 12 months prior to their maturity date).

Following completion of the Transactions, it is expected that Metro Bank's (solo) MREL requirement will be met by Metro Bank's issued CET1 (including an internal issuance of CET1 on back to back terms with

the New Shares) and internal issuances of own funds and other MREL debt instruments (on back to back terms with the New Tier 2 Notes and the New MREL Notes), in each case issued to the Company. For further details on the Group's *pro forma* capital ratios, see Part VII "*Unaudited Pro Forma* Financial Information".

***Resolvability Assessment Framework***

Apart from the resolution powers and stabilisation options analysed above, the Banking Act and associated PRA rules also contain requirements relating to recovery and resolution planning.

In the context of resolution planning, the Bank of England's rules on a resolvability assessment framework (the "Resolvability Assessment Framework" or "RAF") set requirements for the resolvability of UK bank groups that have a bail-in resolution strategy (such as the Group) or partial property transfer resolution strategy. The RAF broadly comprises three parts. The Group is subject to the resolvability assessment part of the RAF and is also subject to recovery and resolution planning obligations under the UK recovery and resolution regime. Also, the Group's recovery plan submission is periodically assessed by the Bank of England. As at the date of this document, however, the self-assessment and disclosure obligations under the RAF (the remaining two parts) do not apply to Metro Bank or the Group as it has less than £50 billion retail deposits.

**Consumer credit regulation**

The FCA is responsible for the oversight and regulation of consumer credit. The framework for consumer credit regulation comprises the FSMA and its secondary legislation (consumer credit activities are, therefore, subject to the General Prohibition and the FSMA authorisation regime discussed earlier in this Part III, retained provisions in the Consumer Credit Act 1974 and rules and guidance in the FCA Handbook, including the CONC (for the purposes of this section, collectively the "**Consumer Credit Regime**")).

Under the Consumer Credit Regime, the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 has been amended so that consumer credit activities, including entering into a "regulated credit agreement" as lender, are "regulated activities" for the purposes of the FSMA. A "regulated credit agreement" is any "credit agreement" that is not an "exempt agreement". A "credit agreement" is any agreement between an individual or relevant recipient of credit ("**A**") and any other person ("**B**"), under which B provides A with "credit" of any amount. Credit is widely defined and includes cash loans and any other form of financial accommodation. Exempt agreements include certain agreements predominantly for the purposes of a business, certain agreements secured on land and agreements relating to the purchase of land where a local authority or other specified type of organisation is the lender. Other regulated consumer credit activities include credit broking, debt-related consumer credit activities, entering into a regulated consumer hire agreement as owner, operating an electronic system in relation to lending and providing credit information services and credit references.

Key features of the Consumer Credit Regime include:

- *Authorisation*: To become authorised, firms must meet the threshold conditions (the minimum standards for becoming and remaining authorised) and obtain pre-approval for individuals who will perform key roles in the applicant firm;
- *Supervision*: Under the Consumer Credit Regime, there is a distinction between higher-risk and lower-risk consumer credit activities and different supervisory approaches for each. There is close supervision of firms engaged in higher-risk consumer credit activities and a less intensive supervision regime for lower-risk firms. Firms are subject to regular reporting requirements in relation to their consumer credit activities and the FCA engage in thematic work in response to systemic issues;
- *Rules*: The relevant rules are FCA rules (breaches of which can be penalised), guidance and provisions of the Consumer Credit Act. The FSMA financial promotions regime also applies, and the FCA has also imposed financial promotion rules for high cost short-term credit, cold calling and debt management companies;
- *Enforcement*: The FCA's enforcement powers include the power to: bring criminal, civil and disciplinary proceedings; withdraw authorisations; suspend authorised firms for 12 months; suspend individuals from performing certain roles for two years; and the power to issue unlimited fines. It is also able to use its product intervention powers in the consumer credit market, which can include restrictions on product features and selling practices or product bans; and

- *Complaints and redress*: Consumers have access to the FOS. The FCA also has the power to require authorised firms to reimburse consumers who have suffered loss due to the firm's actions.

In December 2022, the Government launched a consultation on reforming the Consumer Credit Act. The consultation stated the Government's intention was to move the majority of the Act's provisions from statute into FCA rules. The consultation also considered reforming the regime to rely more on the FCA's Consumer Duty than rights under the Consumer Credit Act. The consultation closed for responses in March 2023. On 11 July 2023, HM Treasury issued a response to the consultation confirming the Government's intention to reform the Consumer Credit Act by repealing much of the Consumer Credit Act and restating it in the FCA rulebook. The Government's intention is now to undertake detailed policy development and engage with relevant stakeholders, with a view to publishing a second stage consultation in 2024 containing more detailed policy proposals. Any subsequent reform would likely require primary legislation.

**Mortgage lending**

The FSMA regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or to trustees; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under the FSMA as to authorisation or financial promotions are contravened, then the relevant regulated mortgage contract (and, in the case of financial promotions, certain other credit secured on land) is unenforceable against the borrower without a court order. The MCOB sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under the MCOB rules, an authorised firm (such as the Group) is subject to strict rules on arrears handling and repossessions and is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

In March 2009, the Turner Review, "*A regulatory response to the global banking crisis*", was published and set out a detailed analysis of how the global financial crisis began along with a number of recommendations for future reforms and proposals for consultation. As part of the Turner Review, the FSA published a discussion paper outlining proposals for reform of the mortgage market.

Subsequently, the FSA commenced a wide ranging consultation on mortgage lending: the FSA's Mortgage Market Review ("**MMR**"). The MMR concluded with the publication of final rules by the FSA on 25 October 2012 that amended the existing conduct rules for mortgage lending. The majority of the new rules came into effect on 26 April 2014.

Principal changes are to promote responsible lending and include:

- more thorough verification of borrowers' income (no self-certification of income, mandatory third-party evidence of income required);
- assessment of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;
- application of interest rate stress tests – lenders must consider likely interest rate movements over a minimum period of five years from the start of the mortgage term;
- when making underwriting assessments, lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process;
- lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met;
- significant changes to mortgage distribution and advice requirements (including a requirement that advice must be given during most interactive sales); and

- changes in relation to arrears management and requirements on contract variations such as when additional borrowing is requested.

The directive on credit agreements relating to residential property, commonly known as the Mortgage Credit Directive ("**MCD**") came into effect on 20 March 2014. The MCD was, to some extent, modelled on the Consumer Credit Directive and requires, among other things, standard pre-contractual information to be provided to the borrower, calculation of the annual percentage rate of charge in accordance with a prescribed formula, and the borrower to have a right to make early repayment. In addition, in August 2015, the European Banking Authority ("**EBA**") published guidelines on mortgage arrears and foreclosure (the majority of which applied from March 2016) and the MCD itself provides for a review after five years.

The MCD entered into force in the UK in March 2016. Changes included amendment of the definition of "regulated mortgage contract" to include second charge lending, bringing the regulation of second charge mortgage lending into line with first charge lending (rather than it being regulated under the FCA's Consumer Credit Regime), and the establishment of a framework for regulating buy-to-let mortgage lending to consumers. The Mortgage Credit Directive Order 2015 (SI 2015/910), as amended by the Mortgage Credit Directive (Amendment) Order 2015 (SI 2015/1557), implemented the Mortgage Credit Directive into UK law, in part by making changes to FSMA.

On 26 March 2019, the FCA issued a final report on its mortgages market study (MS16/2.3). The final report proposed certain remedies for the mortgage market, with the FCA proposing new lending rules on how lenders assess whether or not a customer can afford to switch to a new loan. The FCA introduced further changes to advice rules and guidance that would reduce barriers to innovation in mortgage distribution on 31 January 2020 (subject to certain transitional provisions deferring application to 30 July 2020).

On 10 March 2023, the FCA published finalised guidance for firms on supporting existing mortgage borrowers impacted by rising living costs (FG 23/2). This guidance explains how firms can support their customers, outlines the flexibility firms have when providing forbearance to customers, and the scope firms have to vary contract terms for borrowers who want to reduce their monthly payments. All mortgage lenders regulated by the FCA are expected to comply with this guidance and firms can expect to be asked to demonstrate to the FCA how they have complied with the guidance. The guidance may also be relevant to enforcement cases and may be used by the FCA to determine whether a firm's conduct falls below the standards required.

On 25 May 2023, the FCA launched a consultation on incorporating aspects of its Tailored Support Guidance ("**TSG**"), introduced during the coronavirus pandemic for customers in financial difficulty, into CONC and MCOBs (CP23/13). Some of the key proposals relevant to mortgages in the consultation include expanding the circumstances in which support should be provided to customers, enhancements to the FCA's expectations around customer engagement and provision of information and expectations for firms to consider a range of forbearance options and take reasonable steps to ensure forbearance and payment arrangements remain appropriate. The consultation closed on 13 July 2023 and the FCA's stated aim is to publish its feedback and a final policy statement in the second half of 2023, with new rules to come into force to replace the TSG in the first half of 2024.

In June 2023, the FCA published enabling provisions to support the implementation of the Government's 'Mortgage Charter', enabling mortgage lenders to allow mortgage borrowers to reduce their capital repayments (including to zero, and paying interest only) for up to 6 months or fully or partly reverse a term extension within 6 months of extending the term, in each case without a new affordability assessment.

For a discussion of the risks associated with the above regulatory considerations, see "*Risk Factors—Risks relating to the operation of the Group's business— The Group's business is subject to inherent risks arising from macroeconomic conditions in, and which affect, the UK, both generally and as they specifically affect financial institutions*" and "*Risk Factors—Regulatory risks relating to the Group's business*".

**Payment Services Regulation**

Under the Payment Services Regulations 2017 (the "**PSR**"), the FCA is responsible for regulating payment services in the UK. The PSR establish an authorisation regime, requiring payment service providers (other than authorised credit institutions such as Metro Bank) to either be authorised or registered with the FCA. The PSR also contain certain rules about providing payment services that payment service providers must comply with, including in relation to consent for payment transactions, unauthorised or incorrectly executed transactions, liability for unauthorised payment transactions, refunds, execution of payment transactions, execution time, information to be provided to payment service users and liability of payment services

providers if things go wrong. In comparison with the previous Payment Services Regulations 2007, the PSR include a requirement to grant (in certain circumstances) certain regulated third parties with access to customer accounts and information and introduce stronger customer authentication requirements and enhanced consumer protection obligations.

The Banking Reform Act required the FCA to establish a body corporate to regulate payment systems (the "**Payment Systems Regulator**"). The Payment Systems Regulator was established on 1 April 2014 and became fully operational in April 2015.

The general functions of the Payment Systems Regulator are:

- giving general directions;
- giving general guidance; and
- determining the general policy and principles by reference to which it performs particular functions.

In discharging its general functions, the Payment Systems Regulator must, so far as is reasonably possible, act in a way which advances one or more of its payment systems objectives. The Payment Systems Regulator's payment systems objectives are:

- to promote effective competition in the market for payment systems and the markets for services provided by payment systems;
- to promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, services provided by payment systems, with a view to improving the quality, efficiency and economy of payment systems; and
- to ensure payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use, or are likely to use, services provided by payment systems.

In its latest annual plan for 2023 and 2024, the Payment Systems Regulator set out a number of key projects of relevance to the Group, including new proposals to tackle APP scams, the creation of a new entity to further develop Open Banking, shaping the New Payments Architecture, and reviewing card fees and the ATM network.

The UK payment services regulatory regime originates from European Union law. Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market (the "**Payment Services Directive**") was required to be transposed by Member States before 1 November 2009.

In January 2016, a revised payment services directive ("**PSD II**") came into force. The aim of the directive is to take account of new types of payment services due to technological development and to harmonise the transposition of certain rules set out in the Payment Services Directive that had been transposed or applied by Member States in different ways, leading to regulatory arbitrage and legal uncertainty. A regulation on multilateral interchange fees also came into force on 9 December 2015. Taken together, these new pieces of legislation are designed to: (i) extend the scope of the Payment Services Directive as regards geographical scope, currencies covered and payment services regulated; (ii) limit the scope of available exemptions under the Payment Services Directive; (iii) increase consumer rights and payment security; and (iv) reduce interchange fees for card payments and prohibit surcharging. The deadline for Member States to transpose PSD II into national law was January 2018. PSD II is implemented in the UK by the PSR and parts of the FCA Handbook.

In relation to payment accounts, on 28 August 2014, the text of Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the "**Payment Accounts Directive**") was published in the Official Journal of the European Union. The Payment Accounts Directive is intended to enable consumers to make informed choices when opening a payment account by improving the transparency and comparability of information on account fees, while eliminating discrimination based on residency, and to enable consumers to switch accounts more easily. The UK implemented the Payment Accounts Directive by means of the Payment Accounts Regulations 2015 (the "**PAR**"). In line with the Payment Accounts Directive, the provisions of the PAR on packaged accounts, switching and basic bank accounts took effect in the UK in September 2016. The provisions on transparency and comparability of fee information came into force on 31 October 2018.

**UK ring-fencing regime**

Entities that meet the threshold for the UK ring-fencing regime (£25 billion of deposits, excluding deposits from financial institutions and certain corporates and high net worth individuals that "opt out") are required to separate the core activity of accepting deposits, together with the core services associated with that activity, into a separate RFB. The regime also prohibits an RFB from undertaking certain excluded activities, namely dealing in investments as principal and dealing in commodities incurring exposures to certain types of financial institutions, and having branches or subsidiaries in non-EEA Member States. The excluded activities and prohibitions are subject in each case to limited exceptions.

The ring-fencing regime also includes rules that govern the relationship between the RFB and the rest of its group, including entities that carry out excluded activities and activities that the RFB is prohibited from undertaking (such entities being non-ring-fenced bodies, or "**NRFBs**"). These ring-fencing rules address areas such as the legal structure of the RFB sub-group, governance arrangements for RFBs, prudential requirements and requirements for intra-group transactions and distributions.

Banks that fall within the scope of this regime were required to have implemented all relevant reforms to comply with the ring-fencing regime by 1 January 2019 at the latest (other than in respect of pension arrangements, for which the deadline for implementing changes was 1 January 2026). While the Group is not currently subject to the ring-fencing requirements, on the basis that it does not hold the minimum threshold of deposits to be required to ring-fence its business, the implementation of ring-fencing may affect its ability to transact with RFBs within banking groups that are subject to those requirements.

The ring-fencing rules and the rules on proprietary trading were reviewed in 2021 by an independent panel, appointed by HM Treasury. The focus of the review was on whether the rules have any unintended consequences on competition in UK banking markets and whether they stifle capabilities of UK banks in international markets. The most significant change recommended in the final report, which was published in March 2022 (the "**Skeoch review**"), related to the scope of the ring-fencing regime. The report included a recommendation to revise the scope of the ring-fencing regime to focus on large, complex banks and exclude banks that do not undertake certain excluded activities above prescribed levels from the scope of the ring-fencing regime. In December 2022, the Government responded to the review, noting an intention to consult in mid-2023 on plans to increase the threshold from £25 billion to £35 billion, alongside consulting on other measures near-term reform measures recommended in the review.

On 2 March 2023, HM Treasury issued a call for evidence on aligning the ring-fencing and resolution regimes. The call for evidence is the first step of the Government's response to the long-term recommendation of the Skeoch review for HM Treasury to review the practicalities of how to align the ring-fencing and resolution regimes. The review (i) concluded that the resolution regime offers a more comprehensive solution to addressing the problems of "too big to fail", (ii) suggested that an effective way of aligning the two regimes might be to introduce a new power that would enable the authorities to remove banks from the ring-fencing regime when they are judged to be resolvable and (iii) recommended that, in doing so, the Government consider the practicalities of aligning the ring-fencing and banking resolution regimes, while maintaining the UK's financial stability.

**FSCS**

The FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. There are different compensation limits for different categories of claim. For example, the limits are: (i) for claims against firms that failed on or after 30 January 2017, for deposits, up to £85,000; (ii) for claims against firms that failed on or after 1 January 2019, for mortgage advice and endowments, up to £85,000; and (iii) for claims against insurance brokers, claims under compulsory insurance are 100 per cent. protected and other types of claim are 90 per cent. protected with no upper limit. The FSCS pays compensation for financial loss and the actual compensation a customer will receive depends on the basis of their claim. Compensation limits are per person, per firm and per type of claim. The FSCS is funded by levies raised on authorised firms.

Following the market disruption caused by the failure of Silicon Valley Bank in March 2023 and the ensuing events concerning other financial institutions, there has been increased regulatory scrutiny of the depositor protection regime. On 31 March 2023, the PRA published a Policy Statement (PS2/23) and amendments to the PRA rulebook to clarify that the FSCS depositor protection regime extends to certain eligible customers of e-money institutions, authorised payment institutions, small payment institutions and credit unions (in respect of e-money), if the relevant firms' safeguarding bank becomes insolvent. These amendments came into effect on 12 March 2023.

For a discussion of the risks associated with the above regulatory considerations, see "*Risk Factors—Regulatory risks relating to the Group's business*".

**Culture and diversity and inclusion**

UK regulators have enhanced their focus on the promotion of cultural values as a key area for banks, although they generally view the responsibility for reforming culture as primarily sitting with the industry. For example, in March 2020, the FCA published a discussion paper aimed at highlighting the importance of purposeful cultures. The discussion paper included essays from industry leaders, professional bodies and culture experts exploring the role of purpose in driving a healthy, sustainable culture. In addition, UK regulators have also begun focusing on diversity and inclusion in financial services firms, with the Bank of England, PRA and FCA having published a joint discussion paper on this topic in July 2021. The FCA also published a policy statement on diversity and inclusion in April 2022, which includes measures to improve transparency on the diversity of company boards and their executive management for investors and other market participants. On 25 September, the FCA and PRA published consultation papers outlining their policy proposals that aim to support progress on improving diversity and inclusion across the financial sector. The consultations cover a wide range of topics, including proposals for firms to put in place diversity and inclusion strategies, new reporting requirements for larger firms (including all CRR firms) and diversity and inclusion targets. The consultations will close on 18 December 2023. The FCA and PRA have committed to publish policy statements containing final rules in 2024.

**Competition and national security regulation**

The Group is subject to supervision and oversight by a number of competition regulators, including the CMA and sectoral regulators. The FCA and the Payment Systems Regulator have concurrent powers with the CMA to enforce competition rules in the UK insofar as they relate to the provision of financial services and participation in payment systems, respectively. These regulatory bodies have broad powers to launch market studies or conduct investigations.

Following the CMA's market investigation into retail banking which concluded in 2016, there have been several recent competition related developments in the retail banking space, including the roll-out of Open Banking, new disclosure requirements for current account providers and new rules for banks requiring them to provide early warnings about approaching overdraft limits.

In September 2018, the CMA announced that it was investigating a super-complaint from Citizens Advice about long-term customers overpaying for key services, including mortgages and savings. The CMA has also commissioned research into personalised pricing in online shopping.

In 2018, the FCA published discussion papers on price discrimination in the cash saving market (DP18/6) and on fair pricing in financial services (DP18/9). DP18/9 focused on firms charging different prices to different consumers based purely on consumers' price sensitivity (which the FCA call "price discrimination") and on firms charging existing customers more than new customers (which the FCA calls "loyalty pricing" or "inertia pricing"). The paper explored several possible remedies, including restrictions on product design (such as removal of auto-renewal mechanisms) or restrictions on price (such as price caps or collars). The FCA published a consultation paper in early 2020 on price discrimination in the cash savings market (CP20/1). CP20/1 included proposals around, among other things, new rules to require firms to pay customers single rates for easy access cash savings and ISA products no later than 12 months after the account is opened. The FCA subsequently announced on 4 November 2021 that, due to the impact of coronavirus (COVID-19) and the low-interest rate environment, it had decided to cease work on this area. The FCA has stated that it continues to monitor this area and may revisit it if it sees significant harm to consumers in the future. The FCA's work in this area sets out a framework of factors for firms to consider as part of their implementation of the FCA's Consumer Duty and, in particular, the outcome for firms manufacturing products to ensure that their products provide fair value to retail customers in the target markets for those products.

While the outcome and the scope of any future studies and proposals is inherently uncertain, they may ultimately result in the application of behavioural and/or structural changes and remedies by the regulators.

On 4 January 2022, the NSI Act came into force. The NSI Act enables the Government to screen transactions where there is a change of control of certain entities or assets which are located in, or which have a sufficient connection to, the UK, even when such entities or assets are based overseas. The NSI Act establishes a mandatory notification regime in respect of the acquisition of control of entities within designated sectors. The Act also gives the Government powers to "call in" for scrutiny a wide range of

transactions involving changes of control of entities or assets that are not subject to the mandatory notification regime.

For a discussion of the risks associated with the above regulatory consideration, see "*Risk Factors—Regulatory risks relating to the Group's business*".

**Other relevant legislation and regulation**

EU member states were required to transpose the Fourth Money Laundering Directive (Directive (EU) 2015/849) ("**4MLD**") by 26 June 2017 and the 4MLD has been transposed into UK law by virtue of the Money Laundering Regulations 2017 ("**MLRs 2017**"). The 4MLD made changes to the requirements around customer due diligence and the central register of beneficial ownership, introduced enhanced measures for politically-exposed persons, removed the automatic exemption from customer due diligence, and the application of group-wide policies and procedures to branches and majority-owned subsidiaries located in countries outside of the EU. The 4MLD also introduced a risk-based approach to customer due diligence.

The Fifth Money Laundering Directive ((EU) 2018/843) ("**5MLD**") was published in June 2018 and EU member states were required to transpose the 5MLD into national law by 10 January 2020. Although the changes introduced by the 5MLD are not as extensive as those introduced by the 4MLD, the 5MLD contains some notable introductions including extension to virtual currencies and pre-paid cards, improved safeguards for financial transactions to/from high risk third countries, and provisions aimed at ensuring that centralised national bank and payment account registers or central data retrieval systems are accessible in all EU member states. HM Treasury implemented the 5MLD through amendments to the MLRs 2017.

The amendments to the MLRs 2017 to implement the 5MLD place a requirement on Metro Bank to (among other things) verify the identity and address of customers opening accounts with it, and to keep records to help prevent money laundering and fraud. In addition, the Proceeds of Crime Act 2002, Terrorism Act 2000, Counter-Terrorism Act 2008, Terrorist Asset-Freezing etc. Act 2010, Wire Transfer Regulation (EU Regulation 1781/2006) and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) collectively contain requirements and offences in relation to money laundering and the financing of terrorism that are applicable to the Group. Guidance in respect of anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group, which is made up of certain UK trade associations in the financial services industry. On 30 March 2023, the Government provided further guidance setting out its position regarding reporting obligations for banks, when they are undertaking checks required by the Immigration Act 2014. This is in conjunction with the existing money laundering reporting requirements under the Proceeds of Crime Act 2002.

The Bribery Act 2010 contains offences relating to bribing another person, being bribed and bribing foreign public officials. It also contains an offence for commercial organisations for failing to prevent bribery. The Ministry of Justice has published guidance about procedures which commercial organisations can put into place to help prevent against persons associated with them engaging in such activity.

With effect from 30 September 2017, the Criminal Finances Act 2017 introduced a new criminal offence for businesses that fail to take adequate steps to prevent their associates (employees, agents or other persons who perform services for or on behalf of the business concerned) from facilitating tax evasion. Only where the business has put in place reasonable prevention procedures to prevent facilitation of tax evasion by their associates will it have a defence. HMRC has published guidance on the types of processes and procedures that may be put in place by businesses to limit the risk of representatives criminally facilitating tax evasion.

The UK Data Protection Act 1998 (the "**DPA**") regulates the processing of data relating to individual customers. The DPA supplements the GDPR and came into force on 25 May 2018 (superseding the Data Protection Act 1998). It also implements the EU Data Protection Directive (Directive (EU) 2016/680) into UK law. Those responsible for processing and controlling personal data must ensure that their data policies and processes reflect requirements contained in the GDPR and the DPA. The DPA appoints the Information Commissioner as the independent data protection regulator and contains requirements for data controllers to notify the Information Commissioner of breaches of the DPA.

The UK Unfair Terms in Consumer Contracts Regulations 1999 (together with, insofar as applicable, the Unfair Terms in Consumer Contracts Regulations 1994) apply to consumer contracts entered into on or after 1 July 1995 and prior to 1 October 2015. Contracts entered into on or after 1 October 2015 are governed by the Consumer Rights Act 2015. The main effect of these pieces of legislation is that a contract term which is "unfair" will not be enforceable against a consumer. This applies to, among other things, mortgages and related products and services.

The Modern Slavery Act 2015 requires companies supplying goods or services with a total global annual turnover of thirty-six million pounds sterling (£36 million) or more that are carrying out a business, or part of a business, in the UK to publish a slavery and human trafficking statement each financial year. The total turnover is calculated taking into account the turnover of any subsidiary undertakings.

For the financial services regulatory risks relating to the Group's business, please see "*Risk Factors—Regulatory risks relating to the Group's business*".

# PART IV

## OPERATING AND FINANCIAL REVIEW

*The following discussion summarises the significant factors and events affecting the results of operations and the financial condition of Metro Bank and its subsidiaries as at and for each of the years ended 31 December 2020, 2021 and 2022, and of the Group as at and for each of the six months ended 30 June 2022 and 2023, and should be read in conjunction with Part II of this document and Part V of this document and the information relating to the business included elsewhere in this document. Selected financial information in this section has been derived from Part V of this document, in each case without material adjustment, unless otherwise stated. Shareholders should read the whole of this document and not just rely on summarised information.*

*The following discussion of the Group's and Metro Bank's results of operations and financial condition contains forward-looking statements that reflect the current view of the Directors involve risks and uncertainties. See "Risk Factors" and Part II of this document regarding forward-looking statements" for a discussion of important factors that could cause the Group's and Metro Bank's actual results to differ materially from the forward-looking statements contained herein.*

*For the purpose of the analysis presented in this section, all references to financial or operational data of "the Group" as at and for each of the years ended 31 December 2020, 2021 and 2022 should be read as referring to Metro Bank and its consolidated subsidiaries. For further information, see "Important Information—Presentation of Financial Information".*

### Overview

Metro Bank was founded in 2010 as the first full-service, independent, new high street bank to open in the UK in more than 150 years. The Group attracts core deposits through its service-led community banking model, with an emphasis on its core retail and SME franchise.

The Group has established a strategically located network of 76 stores (aka branches) in key conurbations across England and Wales, with 2.8 million customer accounts, £15,529 million in deposits from customers and £12,572 million of loans and advances to customers as at 30 June 2023. The Group's stores and contact centres are open seven days a week, early until late, alongside online and mobile banking, all designed to provide excellent customer service.

The Group's success in delivering an outstanding customer experience is best evidenced by the results of the CMA Service Quality surveys, in which the Group consistently ranks highly for overall services and for service in branches. In the latest results, published in August 2023, 67 per cent. of personal current account customers and 63 per cent. of business customers were likely to recommend the Group's services.

The Group's emphasis on delivery at the point-of-sale means that new-to-bank customers leave a store with a fully functioning current account (including access to telephony, internet and mobile banking, with customers assisted in downloading the *Metro Bank* mobile application in store at the time of application) and an activated contactless debit card printed in store, for which they set their own PIN, thus requiring no repeat store visits or mailings to complete their account opening process. In addition, in 2022, 29 per cent. of the Group's new retail and SME customers used digital channels to open their first account, thereby allowing access to mobile and online banking services. Furthermore, customers have access to UK-based contact centres staffed by Group colleagues that utilise real-time, skill-based routing for customer calls.

The Group has also continued to invest in its "back office" infrastructure, enhancing operational performance and resilience. In addition, the Group has robust cybersecurity controls, including web application firewalls to protect its external websites, malware detection tools to protect data, and a 24/7 managed security service to monitor its IT infrastructure.

The Group is primarily funded by deposits from its customers, drawings from the Bank of England's TFSME scheme, debt securities in issue and capital provided by shareholders. As at 30 June 2023, the Group had total assets and liabilities of £21,747 million and £20,777 million, respectively (31 December 2022, £22,119 million and £21,163 million; 31 December 2021, £22,587 million and £21,552 million; 31 December 2020, £22,579 million and £21,290 million).

### Segmentation

For the purposes of its financial reporting, the Group does not segment its business. References elsewhere in this document to the Group's Retail group and Business and Commercial group refer to conventions that the Group uses operationally to describe its major product lines and are not reflected or discussed in this Part IV of this document.

### Key Factors Affecting Results of Operations

Set forth below are certain key factors which have historically affected the Group's balance sheet growth and results of operations, and which may affect its balance sheet growth and results of operations in the future.

### The Transactions

Please see paragraph 1 of Part I for a discussion of the expected impact on the Group's financial condition and results of operations from the failure of the Transactions to successfully close.

### Deposit base and funding

The Group is primarily funded by deposits from its Commercial and Retail customers and capital provided by shareholders, as well as limited funding from the wholesale funding markets, including the Bank of England's TFSME scheme, the Existing Tier 2 Notes, the Existing MREL Notes and repurchase agreements.

The following tables set out deposits by category as at 31 December 2020, 2021 and 2022, and as at 30 June 2023:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | | | | *(unaudited)* |
| | | *(£ million)* | | |
| Deposits from commercial customers | 7,112 | 7,921 | 8,163 | 7,972 |
| Deposits from retail customers | 8,960 | 8,527 | 7,851 | 7,557 |
| **Total deposits from customers** | **16,072** | **16,448** | **16,014** | **15,529** |

During the periods under review, the decrease in the Group's overall deposits was driven by the strategic decision to reduce the proportion of deposits derived from fixed term savings accounts. Fixed term savings accounts typically are a more expensive form of funding compared to current accounts and demand savings accounts ("**Core Deposits**"). The Group has therefore focused on attracting and maintaining a low cost of funding by increasing its proportion of Core Deposits. The growth of Core Deposits over the period under review was primarily driven by the Group's focus on retail and SME customers, with both average balances and total number of customer accounts increasing.

In the last quarter of 2022 and in the first six months of 2023, the Group, alongside other banks, started to see a reduction in average account balances. The Group believes that this reflects the withdrawal by its customers of excess savings built up during the COVID-19 pandemic in order to help them address the higher costs of living. The higher costs of living and inflation are also reflected in increases in the amount of direct debit transactions.

The table below sets forth total deposits by interest type as at 31 December 2020, 2021 and 2022 and as at 30 June 2023.

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | | | | *(unaudited)* |
| | | *(£ million)* | | |
| Demand: current accounts | 6,218 | 7,318 | 7,888 | 7,106 |
| Demand: savings accounts | 6,430 | 7,684 | 7,501 | 7,218 |
| Fixed term: savings accounts | 3,424 | 1,446 | 625 | 1,205 |
| **Total** | **16,072** | **16,448** | **16,014** | **15,529** |

Notwithstanding the Group's strategic shift to increase the proportion of Core Deposits relative to total deposits, the increase in interest rates during the period under review has resulted in the Group re-entering the fixed-term deposit market to provide a greater duration mix, although it remains focused on growing its Core Deposit base. To aid the growth in Core Deposits, the Group is resuming store openings from 2024 onwards, with 11 planned store openings by the end of 2025. The Group is also undertaking additional initiatives to aid in deposit growth, including the use of bonus rates on variable savings. This will provide the Group with the ability to differentiate front and back book deposit pricing, allowing it to grow variable savings accounts while limiting the overall increase in cost of deposits.

**Loan portfolio growth**

The Group's loans and advances to customers comprise Commercial loans and advances to customers (including business loans, commercial mortgages, asset finance, invoice finance, commercial real estate, SME lending and business credit cards and overdrafts) and Retail loans and advances to customers, which comprise retail mortgages (residential and buy-to-let) and consumer and other loans (including unsecured loans, MMA loans, retail credit cards and retail overdrafts). These loans consist of organically originated products under both the *Metro Bank* and *RateSetter* brands as well as purchased portfolios.

The table below sets forth a breakdown of gross loans and advances to customers by group as at 31 December 2020, 2021 and 2022 and as at 30 June 2023.

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | | | | *(unaudited)* |
| | | *(£ million)* | | |
| Commercial lending | 5,148 | 4,846 | 4,160 | 3,768 |
| Retail lending | 7,096 | 7,613 | 9,129 | 9,001 |
| *of which*: | | | | |
| *Retail mortgages (residential and buy-to-let)* | 6,892 | 6,723 | 7,649 | 7,591 |
| *Consumer lending* | 204 | 890 | 1,480 | 1,410 |
| **Gross loans and advances to customers** | 12,244 | 12,459 | 13,289 | 12,769 |

Retail mortgages and Commercial loans, which are generally secured on property or other forms of collateral, accounted for 59 per cent. and 30 per cent., respectively, of the Group's loan book as at 30 June 2023. A further 5 per cent. of the Group's loan book as at 30 June 2023 comprised BBLS, which are 100 per cent. government backed. In the periods under review, gross loans and advances to customers increased by 4 per cent., from £12,244 million as at 31 December 2020 to £12,769 million as at 30 June 2023, primarily due to growth in retail lending. This growth was aided by the acquisition of RateSetter in 2020, which gave the Group the ability to provide consumer lending at scale. Consumer lending increased

by £1,206 million, or 591 per cent., from £204 million as at 31 December 2020 to £1,410 million as at 30 June 2023.

The Group has reduced its concentration of Commercial lending as it focuses on improving its returns on regulatory capital. Commercial lending decreased by £1,380 million, or 27 per cent., from £5,148 million as at 31 December 2020 to £3,768 million as at 30 June 2023. This decrease represented a net reduction, as the gross reduction over the period was partly offset by the Group's participation in the Government-backed lending schemes introduced during the COVID-19 pandemic. These schemes are either fully or mostly underwritten by the Government, as a result of which they carry reduced credit risk as well and provide a higher return on regulatory capital.

While gross loans and advances to customers increased over the period under review, they did so at a slightly slower rate than has historically been the case. This reduction in the lending growth reflects the Group's capital position, which limits the rate at which lending balances can increase.

The Group had an LTD ratio of 75 per cent., 75 per cent., 82 per cent. and 81 per cent. as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The increase in the LTD ratio in 2022 and during the first half of 2023 primarily reflected the increase in loans and advances to customers and the lower deposit base at the end of the period due to the factors described above under "Deposit base and funding".

**Underlying cost-to-income ratio**

The Group's operating expenses have fluctuated during the periods under review, from £617.3 million in 2020 to £641.2 million in 2021, £554.3 million in 2022, £278.8 million in the six months ended 30 June 2022 and £259.7 million in the six months ended 30 June 2023. Over the same period, its underlying operating expenses fluctuated from £486.0 million in 2020 to £546.8 million in 2021, £532.8 million in 2022, £266.3 million in the six months ended 30 June 2022 and £258.2 million in the six months ended 30 June 2023.

The underlying cost-to-income ratio changed from 143 per cent. in 2020 to 137 per cent. in 2021 to 102 per cent. in 2022 to 90 per cent. in the six months ended 30 June 2023, reflecting the Group's continued focus on both increasing income by prioritising higher-yielding and more capital efficient lending, as well as a disciplined approach to cost management.

**Net interest income**

Net interest income is the largest component of the Group's total income, accounting for 57.7 per cent., 70.6 per cent., 77.2 per cent., 76.4 per cent. and 77.3 per cent. of total income in 2020, 2021 and 2022 and in the six months ended 30 June 2022 and 2023, respectively. The Group's net interest income is affected by a number of factors, including, in particular, the size of its loan and investment portfolios, the level of customer deposits, product mix and the interest rates that the Group pays on its sources of funding and the interest that it earns on its loans and investments. Net interest income also reflects the accounting for leases under IFRS 16 and interest payable on the Existing Tier 2 Notes and the Existing MREL Notes.

Deposits from customers have fallen, from £16,072 million as at 31 December 2020 to £15,529 million as at 30 June 2023. This reduction was driven by the strategic decision to reduce the proportion of deposits from fixed term savings accounts, which are typically a more expensive form of funding compared to Core Deposits. This has helped the Group maintain a low cost of deposits, which were on average below the Bank of England base rate for the periods under review.

The Group's interest-bearing liabilities consist principally of savings deposits from customers (it typically does not pay interest on current accounts). The Group's interest-earning assets consist principally of retail mortgages, commercial lending and consumer and other lending (consisting primarily of unsecured loans issued under the *RateSetter* brand), as well as investment securities. As at 30 June 2023, retail mortgages, commercial lending and consumer lending represented 59 per cent., 30 per cent. and 11 per cent., respectively, of the Group's loan and advances to customers.

For its lending, the Group typically earns the highest average rate of interest on its consumer and commercial loans due to the higher credit risk associated with these products. Retail mortgages typically earn the lowest average rate of interest, which reflects the lower risk profile of the product, as well as the generally competitive nature of the marketplace. The Bank of England's TFSME scheme, which provided substantial additional liquidity to the UK mortgage market, has increased competition further, as has ring-fencing within the Group's larger competitors.

During the period under review, the Group has actively increased its consumer and other lending portfolio, aided by the acquisition of RateSetter in 2020. The Directors believe that the Group's customer relationship-focused lending strategy, supported by its conservative underwriting credit processes, will support the growth of this portfolio in the medium-term while appropriately managing its credit risk. In addition, to reduce the risk profile and improve the capital efficiency of the Group's loan book, the Group has also increased the proportion of lower-risk, higher risk-adjusted returns on regulatory capital (primarily residential) mortgages in its lending portfolio, while decreasing commercial real estate and focussing on lending to trading businesses. This change in mix in the Group's loan book has had a positive impact on its risk-adjusted returns on regulatory capital, which the Group expects to continue.

The Group's net interest income is also affected by changes in interest rates, as most of the Group's interest-bearing assets and liabilities are variable rate, with reference to the Bank of England's base rate, which increased significantly during the periods under review (and, in particular, in 2022 and 2023), from a low of 0.10 per cent. in 2020 to 5.00 per cent. as at 30 June 2022. For further details, see "*Risk Factors—Risks relating to the operation of the Group's business—the Group faces risks associated with interest rate levels and volatility*". In the six months ended 30 June 2023, the Group's average cost of deposits was 0.66 per cent., compared to 0.20 per cent., 0.24 per cent. and 0.65 per cent. in 2022, 2021 and 2020, respectively, and the average interest yield on its loans was 4.50 per cent. in the six months ended 30 June 2023, compared to 3.67 per cent., 3.06 per cent. and 2.68 per cent. in 2022, 2021 and 2020, respectively.

**Retail mortgages**

As at 31 December 2020, 2021, 2022, and 30 June 2022 and 2023, the Group's retail mortgage (residential and buy-to-let) portfolio was £6,892 million, £6,723 million, £7,649 million, £6,785 million and £7,591 million, respectively. During the periods under review, the Group's retail mortgage portfolio has grown, and is expected to continue to grow, primarily due to the Group's relationships with a wide range of specialist mortgage intermediaries. In 2022 and in the six months ended 30 June 2023, the Group derived approximately 96 per cent. and 95 per cent., respectively, of its retail mortgages applications (by value) from intermediaries.

The UK mortgage marketplace is competitive, due to the substantial amount of liquidity resulting from Bank of England lending schemes as well as the impact of ring-fencing within the Group's larger competitors. The competitive nature of the retail mortgage market has reduced the NIM associated with these products.

As at 30 June 2023, the Bank of England base rate was 5.00 per cent., representing an increase from a low of 0.10 per cent. in December 2021. The Group's retail mortgage loan portfolio is affected by changes in interest rates, particularly as the lower rate 'back book' is replaced by higher rate, 'front book' lending. The extent to which the Group has been able to pass through to its customers base rate increases, particularly in 2022 and 2023 has depended in part on the competitive nature of the retail mortgage market and the ability of the larger, high street banks to maintain lower rates in order to retain and/or grow their market share at the expense of banks, including challenger banks, with smaller balance sheets.

The Group's retail mortgage portfolio, like its customer base, has historically been concentrated in Greater London and the South East and, as at 30 June 2023, these areas together accounted for 65 per. cent. of the Group's total retail mortgages. As the Group has further expanded its footprint into the South West, the Midlands, Wales and the North of England, its retail mortgage portfolio has diversified as well.

The Group's retail mortgage portfolio is also affected by changes in the Government's policies relating to the purchase and resale of residential property, including through property purchase assistance schemes and changes in tax laws which have in the past removed certain types of tax relief for mortgage interest and imposed higher rates of stamp tax for second home purchases and certain buy-to-let property investments. It was also affected during the COVID-19 pandemic by the temporary reduction in the stamp duty land tax rate between 8 July 2020 and 30 September 2021.

**Commercial lending**

The Group's Commercial lending product offering primarily consists of secured term loans, asset and invoice financing, and partner loans. In addition, the Group has participated in the Government-backed lending schemes introduced during the COVID-19 pandemic. Commercial lending decreased from £5,148 million as at 31 December 2020 to £3,768 million as at 30 June 2023. This was driven by a reduction in professional buy-to-let and commercial real estate, offset by an increase in government backed lending. As at 30 June 2023, the Group's commercial lending portfolio comprised commercial term loans (38 per cent. of the total

portfolio), professional buy-to-let loans (16 per cent.), government-backed lending (29 per cent. of the portfolio), asset and invoice finance (12 per cent. of the portfolio) and overdrafts and credit cards (4 per cent. of the portfolio).

To complement the benefits realised from its expanding store network, the Group has specialist teams and relationship managers to increase its Commercial lending business. Two central teams, a large trading team, a real estate team and a specialist sectors team (focusing on a number of priority sectors such as healthcare, hospitality and leisure), are complemented by regional business teams that focus on meeting the needs of local businesses.

**Risk-weighted assets**

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Group had RWAs of £7,957 million, £7,454 million, £7,990 million and £7,802 million, respectively. The decrease from 31 December 2022 to 30 June 2023 reflects the Group's continued capital constraints which limit the ability to grow RWAs, with the Group having focused on increasing its return on regulatory capital.

**Investment securities**

As at 31 December 2020, 2021 and 2022 and 30 June 2023, the Group had investment securities of £3,413 million, £5,574 million, £5,914 million and £5,315 million, respectively. As at 30 June 2023, these investment securities were all investment-grade, with credit ratings of AA above, and the vast majority being either AAA rated or UK gilts.

The Group's investment securities are used to both manage liquidity and provide additional income with lower capital requirements (low risk-weights). Margins on these securities are typically less than for lending, and therefore tend to suppress the Group's overall NIM.

**Credit risk management, loan losses and impairment losses**

Customers defaulting on their loan repayment obligations can adversely impact the Group's financial results. The Group seeks to mitigate its retail credit risk exposure and improve its capital efficiency through the use of collateral and guarantee arrangements. In the case of its Retail mortgages, the Group stratifies its credit exposures by DTV ratio (defined as the ratio of gross outstanding amount to indexed value of collateral). As at 30 June 2023, the Group's DTV ratio exposures across its mortgage and commercial loan portfolios (i.e., excluding unsecured retail loans) were as follows: less than 50 per cent., £3,306 million; 51 per cent. to 60 per cent., £1,711 million; 61 per cent. to 70 per cent., £1,984 million; 71 per cent. to 80 per cent., £1,817million; 81 per cent. to 90 per cent., £625 million; 91 per cent. to 100 per cent., £179 million; and more than 100 per cent., £505 million.

The Group monitors its commercial credit risk concentration by industry sector, and it reassesses its exposure limits by sector at least annually. As at 30 June 2023, the Group's largest industry credit exposure was real estate, notably through its retail mortgage lending as well as professional buy-to-let and commercial real estate financing. The Group has been reducing its exposure to commercial real estate and professional buy-to-let, and is focused on relationship-driven lending and improving its return on regulatory capital.

The Directors believe that the Group's prudent credit risk management policies have allowed it to effectively manage its credit risk while growing the size of its loan portfolio with the Group's loans consisting of retail mortgages and commercial term loans secured on collateral with average debt-to-value of 58 per cent. and 55 per cent., respectively, as at 30 June 2023. Consequently, as at 31 December 2020, 2021 and 2022 and 30 June 2023, the Group's credit impairment charge/expected credit loss was £126.7 million, £22.4 million, £39.9 million and £11.3 million, respectively, while its cost of risk (calculated as the ratio of impairment provisions to average gross lending) was 0.86 per cent., 0.18 per cent., 0.32 per cent. and 0.18 per cent. (annualised) for the periods to the same dates, respectively. The increased expected credit losses recognised in 2020 were in response to the COVID-19 pandemic.

**Net fee and commission income**

The Group earns fee and commission income through a range of business and retail banking services. In the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, the Group earned £61.1 million, £71.2 million, £84.4 million, £39.5 million and £42.2 million in fee and commission income, respectively. These services primarily consist of account charges, ATM fees and interchange income earned through the provision of current accounts. The Group also earns income from the rental of safe deposit boxes by its customers, which made up £15.0 million, £15.1 million, £16.5 million,

£8.0 million and £9.0 million, respectively, of total net fee and commission income in the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023, respectively. As the Group resumes store openings, it expects its safe deposit boxes to continue to be a significant driver of fee and commission income growth. The Group also continues to expand its other fee and commission earning opportunities, through the maturation of existing service offerings, continued growth in customer account volumes (especially for SMEs) and the launch of new services such as its MPay platform.

**Taxation**

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The Group recognised a deferred tax liability (net) in respect of tax losses carried forward and taxable temporary timing differences of £12 million, £12 million, £12 million and £12 million as at 31 December 2020, 2021 and 2022, and 30 June 2023, respectively.

The Group had unrecognised deferred tax assets of £212 million as at 30 June 2023, which represents the future tax impact of carried forward tax losses which will reduce the payment of future tax. This element of the deferred tax asset requires an element of management judgement in assessing its recognition and measurement. The Directors will undertake a reassessment as to whether these should be re-recognised for the year ending 31 December 2023 in light of the Group's actual performance against forecasts and prevailing market conditions. The fact that a deferred tax asset is not reflected in relation to these unused tax losses does not affect their economic recoverability, as there is no time limit beyond which these losses expire.

**Macroeconomic and market conditions**

Since Metro Bank's establishment in 2010, the UK economy has experienced a significant degree of volatility, largely as a result of the consequences of the global financial crisis that began in 2008, the 2016 Brexit referendum, the COVID-19 pandemic, and, more recently, Russia's invasion of Ukraine coupled, the Gaza crisis and the "cost of living crisis".

Generally, periods of economic volatility historically have resulted in a decrease in new borrowing, as individuals and corporate entities choose to save earnings rather than spend or invest, along with an increase in arrears, impairment provisions and defaults.

A tightening monetary policy saw 14 consecutive rate rises in 2022 and 2023, with an assumption that the Bank of England will continue to keep rates high in response to persistent inflationary pressures.

While prolonged inflation places pressure on the Group's costs through wage and supplier inflation, sustained elevated rates benefit the Group's net interest income and NIM, especially in context of the significant lower yielding fixed rate maturities expected across the next three years.

For further details, see "*Risk Factors—Risks relating to the operation of the Group's business—The Group's business is subject to inherent risks arising from macroeconomic conditions in, and which affect, the UK, both generally and as they specifically affect financial institutions*".

**Financial Position**

**Liabilities**

***Deposits from customers***

The Group's deposits from customers as at 31 December 2021 were £16,448 million, an increase of £376 million, or 2.3 per cent., compared to £16,072 million as at 31 December 2020. The increase in the Group's deposits from customers over this period was primarily driven by growth of customer accounts, particularly with business customers, including SMEs.

The Group's deposits from customers as at 31 December 2022 were £16,014 million, a decrease of £434 million, or 2.6 per cent., compared to £16,448 million as at 31 December 2021. The decrease in the Group's deposits from customers over this period was primarily driven by the strategic decision to reduce the proportion of deposits from fixed term savings accounts, which are a more expensive form of funding compared to Core Deposits.

The Group's deposits from customers as at 30 June 2023 were £15,529 million, a decrease of £485 million, or 3 per cent., compared to £16,014 million as at 31 December 2022. The Group believes that the decrease in its deposits from customers over this period was primarily due to the withdrawal by its customers of

excess savings built up during the COVID-19 pandemic in order to help them address the higher costs of living.

***Deposits from central banks***

The Group's deposits from central banks as at 31 December 2021 were £3,800 million, a decrease of £8 million, or 0.2 per cent., compared to £3,808 million as at 31 December 2020. The decrease in the Group's deposits from central banks over this period was primarily driven by the refinancing of TFS with TFSME.

The Group's deposits from central banks was unchanged, being £3,800 million as at 31 December 2022 and £3,800 million as at 30 June 2023.

**Assets**

The following table sets out total assets as at 31 December 2020, 2021 and 2022 and as at 30 June 2023:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | | | | *(unaudited)* |
| | *(£ million)* | | | |
| **Assets** | | | | |
| Cash and balances with the Bank of England | 2,993 | 3,568 | 1,956 | 2,708 |
| Loans and advances to customers | 12,090 | 12,290 | 13,102 | 12,572 |
| Investment securities held at fair value through other comprehensive income | 773 | 798 | 571 | 489 |
| Investment securities held at amortised cost | 2,640 | 4,776 | 5,343 | 4,826 |
| Financial assets held at fair value through profit and loss | 30 | 3 | 1 | 1 |
| Derivative financial assets | — | 1 | 23 | 26 |
| Property, plant and equipment | 806 | 765 | 748 | 733 |
| Intangible assets | 254 | 243 | 216 | 207 |
| Prepayments and accrued income | 77 | 68 | 85 | 107 |
| Assets classified as held for sale | 295 | — | 1 | — |
| Other assets | 2,621 | 76 | 73 | 78 |
| **Total assets** | **22,579** | **22,587** | **22,119** | **21,747** |

Total assets as at 31 December 2021 were £22,587 million, a slight decrease of £8 million compared to £22,579 million as at 31 December 2020.

Total assets as at 31 December 2022 were £22,119 million, a decrease of £468 million, or 2.1 per cent., compared to £22,587 million as at 31 December 2021. The decrease in total assets was primarily due to a reduction in cash balances held at the Bank of England, which were used to fund an increase in lending and investment securities as well as reduction in deposits over the period.

Total assets as at 30 June 2023 were £21,747 million, a decrease of £372 million, or 2 per cent., compared to £22,119 million as at 31 December 2022. The decrease in total assets over this period was primarily due to a reduction in customer deposits of £485 million.

***Loans and advances to customers***

The Group's loans and advances to customers as at 31 December 2021 were £12,290 million, an increase of £200 million, or 1.7 per cent., compared to £12,090 million as at 31 December 2020. The increase in the Group's loans and advances to customers over this period was primarily driven by organic growth in consumer lending supported by the integration of the RateSetter platform, which offset the attrition of lower-yielding retail mortgages and commercial term loans.

The Group's loans and advances to customers as at 31 December 2022 were £13,102 million, an increase of £812 million, or 6.6 per cent., compared to £12,290 million as at 31 December 2021. The increase in the Group's loans and advances to customers over this period was primarily driven by an expansion in retail mortgage and consumer lending, offset by attrition within the Group's commercial lending.

The Group's loans and advances to customers as at 30 June 2023 were £12,572 million, a decrease of £530 million, or 4 per cent., compared to £13,102 million as at 31 December 2022. The decrease in loans and advances to customers over this period was primarily due to the Group choosing to keep additional balances in cash at the Bank of England as a result of higher interest rates, instead of re-lending.

***Investment securities held at amortised cost***

As at 31 December 2020, 2021 and 2022, and 30 June 2023, the Group had investment securities held at amortised cost of £2,640 million, £4,776 million, £5,343 million and £4,826 million, respectively. As at 30 June 2023, these investment securities were all investment-grade, with credit ratings of AA above and the vast majority being either AAA rated or UK gilts.

The Group's investment securities are used to both manage liquidity and provide additional income with lower capital requirements (low risk-weights). Margins on these securities are typically less than for lending and therefore tend to suppress the Group's overall NIM.

***Cash and balances with the Bank of England***

The Group's cash and balances with the Bank of England as at 31 December 2021 were £3,568 million, an increase of £575 million, or 19.2 per cent., compared to £2,993 million as at 31 December 2020. The increase in the Group's cash and balances with the Bank of England over this period was primarily driven by the receipt of proceeds from the £3.1 billion mortgage portfolio sale to NatWest, which was agreed in December 2020 and completed in early 2021.

The Group's cash and balances with the Bank of England as at 31 December 2022 were £1,956 million, a decrease of £1,612 million, or 45.2 per cent., compared to £3,568 million as at 31 December 2021. The decrease in the Group's cash and balances with the Bank of England over this period was primarily driven by the purchase of low-risk and short-dated investment securities.

The Group's cash and balances with the Bank of England as at 30 June 2023 were £ 2,708 million, an increase of £752 million, or 38 per cent., compared to £1,956 million as at 31 December 2022. The increase in cash and balances with the Bank of England over this period was primarily due to the deposit by the Group of cash received from customers who repaid loans during the period, as cash balances deposited with the Bank of England provided a better return on regulatory capital than would have been the case had the Group loaned the funds to its customers.

### Explanation of Certain Income Statement Line Items

#### Interest income

Interest income primarily comprises income earned on loans and advances to customers, as well as income earned on investment securities, principally gilts and retail mortgage-backed securities and bonds issued by corporates and financial institutions.

#### Interest expense

Interest expense comprises interest payable on customer deposit accounts, the Existing Tier 2 Notes, the Existing MREL Notes, TFSME, repurchase agreements as well as the interest expense recognised on lease liabilities pursuant to IFRS 16.

#### Net fee and commission income

Net fee and commission incomes includes fees from a wide range of banking services charged to customers, including those for safe deposit boxes. Loan fee income, which forms an integral part of the effective interest rate of a financial instrument, is recognised as an adjustment to the effective interest rate and recorded in interest income. It also includes associated expenses that are directly related and incremental to the generation of fee and commission income.

### Other income

Other income primarily comprises gains on foreign currency transactions (the spread earned on foreign currency transactions performed for our customers along with any associated fees), and rental income earned from the letting out of surplus space in some of the Group's properties.

### General operating expenses

General operating expenses primarily include people costs, information technology costs, money transmission and other banking-related costs, occupancy costs and professional fees, as well as various other costs, including legal and regulatory fees, remediation costs, marketing costs and transformation costs, among others.

### Depreciation and amortisation

Depreciation and amortisation includes the depreciation of fixtures, fittings and equipment and computer hardware and the amortisation of intangible assets, including computer software and development costs.

### Impairment and write-offs of property, plant, equipment and intangible assets

Property, plant and equipment primarily consists of investment and improvements in the Group's store network and is stated at cost less accumulated depreciation and any recognised impairment. Impairments of property, plant and equipment are recognised in relation to some investment property, and write-offs relate to items that are no longer being used or that are no longer providing any economic benefit.

Intangible assets include goodwill, software and software licenses, customer contracts and brands. Goodwill is tested annually for impairment. Write-offs primarily consist of software and applications that are no longer being used and are no longer providing any further economic benefits.

### Expected credit loss expense

Expected credit loss expense ("**ECL**") comprises the present value of amounts expected to be lost on individual assets and portfolios of assets under IFRS 9, with ECL under IFRS 9 assessed on a forward-looking basis (and include macroeconomic information), and lifetime ECL recognised where the risk of default has increased significantly.

### Taxation

Taxation comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment in respect of previous years.

### Current trading

*The preliminary financial data for the third quarter of 2023 included in this document has been prepared by, and is the responsibility of, the Company's management. PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled, nor applied agreed-upon procedures with respect to the preliminary financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.*

On 7 November 2023, the Company announced in its 2023 third quarter trading update that as at 30 September 2023, the Group's assets were £21,606 million (30 June 2023: £21,747 million), its loans and advances to customers were £12,513 million (30 June 2023: £12,572 million), its deposits from customers were £15,612 million (30 June 2023: £15,529 million) and its loan to deposit ratio was 80 per cent. (30 June 2023: 81 per cent.).

As announced on 8 October 2023, following the end of the third quarter, the Group noted an increase in deposit outflow rates in advance of the announcement of the Transactions. Since the announcement, daily flows have returned to more normal ranges.

The third quarter delivered continued momentum in personal and business current account growth and customer acquisition as well as a modest statutory profit after tax. Lending reflected continued controlled asset origination and as such capital resources were broadly flat relative to 30 June 2023 levels.

**Results of Operations for the six months ended 30 June 2023 and 2022**

The Group's results for the first six months of 2023 marked an important milestone in its journey, as it reported the first full half year of profitability since 2019. The statutory profit before tax of £15.4 million for the six months ended 30 June 2023 (six months to 30 June 2022: loss of £60.2 million) reflected the improved performance of the business, driven by the actions taken as part of the turnaround plan and more recent measures to optimise the return on the balance sheet and mitigate the impact of cost inflation.

The Group's return to profitability, combined with a reduction in RWAs, supported its capital ratios in the first half, although were impacted by a step down in the IFRS 9 transition relief on 1 January 2023. The Group ended the period with a CET1 capital ratio of 10.4 per cent. and an MREL ratio of 18.1 per cent. These compared to the regulatory minima including buffers as at 30 June 2023 (excluding any confidential buffer) of 8.2 per cent. for CET1 and 20.2 per cent. for MREL. The Group therefore continued to operate within its capital buffers, although remained above regulatory minima throughout the period.

The underlying business continued to attract new customers, totalling 129,000 new business and personal current accounts in the first half of the year. This inflow of new customers partially offset the market-wide reduction in average current account balances. The Group started to see its deposits stabilise with increases in balances in June 2023 partially offsetting the outflows seen earlier in the year, aided by the Group's return to the fixed-term deposit market.

***Income statement***

| | **Six months to 30 June 2023** | **Six months to 30 June 2022** | **Year-on-year change** |
|---|---|---|---|
| | *(unaudited)* | | |
| | *(£'million)* | | *(%)* |
| Net interest income | 221.5 | 180.8 | 23 |
| Net fee, commission and other income | 64.1 | 55.7 | 15 |
| Net gains on sale of assets | 0.8 | — | n/a |
| **Total income** | 286.4 | 236.5 | 21 |
| General operating expenses | (221.4) | (233.2) | (5) |
| Depreciation and amortisation | (38.3) | (37.4) | 2 |
| Impairment and write-off of PPE and intangible assets | — | (8.2) | (100) |
| Expected credit loss expense | (11.3) | (17.9) | (37) |
| **Profit/(loss) before tax** | 15.4 | (60.2) | (126) |
| Taxation | (2.7) | (1.5) | 80 |
| **Profit/(loss) after tax** | 12.7 | (61.7) | (121) |

*Net interest income*

The continued increase in the base rate over the past 18 months drove growth in net interest income, which rose to £221.5 million for the six months ended 30 June 2023, up 23 per cent. compared to the prior period (six months to 30 June 2022: £180.8 million) aided by a continued disciplined approach with respect to pricing. A continued increase in asset yield was offset by increased deposit pricing, in part due to the Group's decision to re-enter the fixed term deposit market, and the market-wide reduction in average current account balances. This trend was also reflected in muted net interest margin growth, which increased slightly to 2.14 per cent. (six months to 30 June 2022: 1.73 per cent.).

The Bank of England base rate rises in the period flowed through to the Group's front book loan pricing and variable rate lending. This drove an increase in interest income to £400.1 million for the six months ended 30 June 2023 (six months to 30 June 2022: £239.7 million).

As at 30 June 2023 91 per cent. of the Group's retail mortgages were fixed rate (30 June 2022: 87 per cent.) with a weighted average life of 2.40 years before they reprice (30 June 2022: 1.97 years).

In the Group's consumer term lending and BBLS (closed to new borrowers) portfolios, all of the loans are fixed rate, limiting the impact of rising rates on these portfolios. As the Group's fixed-rate lending rolls off, it will be replaced with higher-yielding loans.

The rise in base rates also partially flowed through to deposits, with cost of deposits increasing to 0.66 per cent. in the first six months of 2023, up from 0.14 per cent. in the first six months of 2022. This increase was driven in part by the Group's return to the fixed-term deposit market as previously guided due to the market-wide decline in average balances.

Interest expense was £178.6 million for the six months ended 30 June 2023, up from £58.9 million in the first half of 2022. The rise in interest expense over the period also reflected the increased cost of wholesale funding, notably the amounts borrowed from the Bank of England under the TFSME. As the cost of TFSME funding is directly linked to base rate it increased significantly in the first half of 2023 to £78.0 million for the six months ended 30 June 2023, compared to £13.1 million for the six months ended 30 June 2022. The Group did not rely on this funding for operational activities and its lending remains entirely deposit funded. It did however provide an additional form of stable funding which, whilst dilutive to net interest margin, can be deployed into high quality floating rate securities or assets.

*Fee, commission and other income*

Statutory net fee, commission and other income increased to £64.1 million for the six months ended 30 June 2023 from £55.7 million for the six months ended 30 June 2022.

Service charges and other fee income increased year-on-year as the Group continued to see increasing customer activity through account acquisition, although growth slowed in comparison to the second half of the year 2022 as transaction volumes reduced, driven by a decline in consumer spending, resulting from cost-of-living pressures.

*Operating expenses*

Total statutory operating expenses decreased to £259.7 million from £278.8 million in the first six months of 2023 and 2022, respectively, reflecting the Group's continued cost discipline despite high inflation conditions. The reduction also reflects a continued lessening in the Group's use of contractors, leading to a reduction in spending on professional fees. People-related costs at £120.4 million for the six months ended 30 June 2023 were broadly flat compared to £119.9 million a year earlier, despite delivering an average pay rise across the Group's workforce of 5 per cent. in April 2023.

The reduction in statutory operating expense was aided by the reduction in non-underlying expenses as the Group completed its transformation program and closed outstanding legacy issues. Most of the non-underlying costs recognised during the period related to the implementation of the Group's holding company in May 2023.

*Expected credit loss expense*

| | ECL Allowance | Coverage ratio | NPL ratio |
|---|---|---|---|
| | *(£ millions)* | *(%)* | |
| **30 June 2023** | | | |
| Retail mortgages | 21 | 0.28 | 1.83 |
| Consumer lending | 93 | 6.60 | 4.82 |
| Commercial | 83 | 2.20 | 4.19 |
| **Total lending** | 197 | 1.54 | 2.86 |

The Group recognised an ECL expense of £11.3 million for the six months ended 30 June 2023 (six months ended 30 June 2022: £17.9 million. The ECL charge in the period reflected the challenging external economic conditions and the maturation of the loan books, offset by ECL releases from commercial repayments and management's actions to constrain lending growth. As part of the Group's approach to calculating ECL it continued to maintain management overlays and adjustments of £24.1 million as at 30 June 2023 (31 December 2022, £30.9 million) which represented 12 per cent. of the total ECL stock (31 December 2022, 17 per cent.). As at 30 June 2023 the Group's coverage ratio increased to 1.54 per cent. (31 December 2022, 1.41 per cent.).

Despite the challenging external conditions, the Group recognised fewer individual impairments in the first six months of 2023, particularly in the commercial space as customers remain resilient despite the economic environment and it also saw repayments which resulted in ECL releases in the period. The Group continued

to have high levels of collateral with average DTV for retail mortgages and commercial term loans as at 30 June of 58 per cent. and 55 per cent., respectively (31 December 2022, 56 per cent. and 55 per cent., respectively). Within the Group's consumer lending portfolio, the Group undertook a robust approach to credit decisioning and saw few signs of deterioration in credit quality. At a total level, non-performing loans ("**NPLs**") represented 2.86 per cent. of gross lending (31 December 2022, 2.65 per cent.).

***Balance sheet***

| | **30 June 2023** | **31 December 2022** | **Change** |
|---|---|---|---|
| | *(unaudited)* | *(audited)* | |
| | *(£'million)* | | *(%)* |
| **Assets** | | | |
| Cash and balances with the Bank of England | 2,708 | 1,956 | 38 |
| Loans and advances to customers | 12,572 | 13,102 | (4) |
| Investment securities held at FVOCI | 489 | 571 | (14) |
| Investment securities held at amortised cost | 4,826 | 5,343 | (10) |
| Financial assets held at FVTPL | 1 | 1 | — |
| Derivative financial assets | 26 | 23 | 13 |
| Property, plant and equipment | 733 | 748 | (2) |
| Intangible assets | 207 | 216 | (4) |
| Prepayments and accrued income | 107 | 85 | 26 |
| Other assets | 78 | 74 | 5 |
| **Total assets** | 21,747 | 22,119 | (2) |
| **Liabilities** | | | |
| Deposits from customers | 15,529 | 16,014 | (3) |
| Deposits from central banks | 3,800 | 3,800 | — |
| Debt securities | 573 | 571 | — |
| Repurchase agreements | 363 | 238 | 53 |
| Derivative financial liabilities | 25 | 26 | (4) |
| Lease liabilities | 238 | 248 | (4) |
| Deferred grant | 17 | 17 | — |
| Provisions | 5 | 7 | (29) |
| Deferred tax liability | 12 | 12 | — |
| Other liabilities | 215 | 230 | (7) |
| **Total liabilities** | 20,777 | 21,163 | (2) |
| **Total equity** | 970 | 956 | 1 |

*Deposits*

The Group's loan to deposit ratio was 81 per cent. as at 30 June 2023 compared to 82 per cent. at the end of 2022. The Group's deposit mix remained focused on core deposits (covering current and interest-bearing savings accounts), representing 92 per cent. of total deposits.

During the first six months of 2023, deposits from customers reduced from £16,014 million as at 31 December 2022 to £15,529 million as at 30 June 2023, primarily driven by a reduction in average account balances. This reduction reflected increased costs of living, including interest costs, paying down borrowing, as well as seasonal factors such as tax payments in January 2023 and a greater propensity to transfer surplus current account balances into higher yielding accounts.

Although average balances decreased, the Group's core deposit franchise remained resilient to increased competition in the market and continued to attract new customers, with 106,000 personal current accounts and 23,000 business current accounts opened in the first half of 2023. The more recent deposit trajectory was positive, with net inflows towards the end of the period.

The Group started to re-enter the fixed term deposit market, after several years of letting these balances reduce. As at 30 June 2023, fixed term deposits were £1,205 million (31 December 2022, £625 million) representing only 8 per cent. (31 December 2022, 4 per cent.) of total deposits.

During the period the Group invested in building out a competitive range of products for the current rate environment. The Directors believe that this investment will improve the Group's switching capabilities to better compete within the ISA market as well as offer a broader range of savings accounts including savings-boost propositions. Given earlier investment prioritisation elsewhere, the Group's market share in these products is lower than for other core products and therefore represents an opportunity for growth.

*Lending*

The Group actively constrained new lending to around or below replacement levels. Accordingly, loans and advances to customers decreased during the period to £12,572 million as at 30 June 2023 compared to £13,102 million at the end of 2022.

Gross commercial lending made up the largest component of the reduction, decreasing 9 per cent. to £3,768 million as at 30 June 2023 from £4,160 million at 31 December 2022. This reflected the continued reduction in the professional buy-to-let portfolio and commercial real estate portfolios, which together decreased by 13 per cent. from £1,412 million as at 31 December 2022 to £1,234 million as at 30 June 2023. The Group continued to see a reduction in government-backed lending, which are closed to new borrowers, as these loans are paid back, with balances reducing from £1,313 million as at 31 December 2022 to £1,109 million at the end of June 2023.

Gross consumer lending reduced to £1,410 million as at 30 June 2023 (£1,480 million at 31 December 2022). Whilst the Group did not seek to build the consumer lending portfolio during the period, it remained an important product area and the Group continued to build out the breadth of its offering including through the launch of a new motor finance proposition towards the end of 2022.

Gross mortgage balances also reduced slightly to £7,591 million as at 30 June 2023 from £7,649 million at 31 December 2022 as originations were kept broadly in line with repayments. The Group's retail mortgage portfolio continued to be primarily focused on owner occupied loans. These made up 72 per cent. of balances at 30 June 2023 (31 December 2022, 72 per cent.) and continued to have a low loan to value profile.

*Property, plant and equipment and intangibles*

Non-current assets and intangible asset balances continued to decrease during the period as depreciation and amortisation charges exceeded the level of additions. Property, plant and equipment were £733 million as at 30 June 2023, down from £748 million at 31 December 2022, as the Group did not open any additional stores in the period. Stores remain core to the Group's service offering and it continued to evaluate a pipeline of sites to deliver on its commitment of 11 new stores in the North of England, which are expected to open in 2024 and 2025.

Intangible assets also continued to decrease to £207 million as at 30 June 2023 from £216 million as at 31 December 2022, reflecting how the Group reduced the levels of investment from the peaks during the turnaround period. Alongside key regulatory enhancement projects the Group invested more recently in its deposit proposition as well as enhancing its core service offering, which included the delivery of confirmation of payee, which was launched in July 2023, enhanced business overdrafts which are delivered entirely electronically and the roll out of a new mortgage platform.

***Capital***

The Group's return to profitability in the first half of 2023 combined with moderated asset origination, and therefore moderated RWA deployment, saw the Group generate organic capital through the period. Risk weighted assets ended the period at £7,802 million, a reduction of 2 per cent. from £7,990 million as at 31 December 2022. The reduction was driven by a decrease in lending volumes partly offset by an increase to the Group's annual operational risk adjustment.

The MREL requirement of 16.7 per cent. reflected the reduction of the Group's Pillar 2A requirements from 0.50 per cent. to 0.36 per cent., from 1 January 2023, and the decision by the Bank of England to set the Group's binding MREL requirement as the lower of 18 per cent. and two times the sum of Pillar 1 and Pillar 2A, which were announced in June 2022.

On 5 July 2023 the scheduled increase in the countercyclical buffer came into effect, increasing it from 1 per cent. to 2 per cent of RWAs. Accordingly, the Company's Tier 1 requirement, including the Combined Buffer Requirement, increased from 9.8 per cent. to 10.8 per cent. The Company's Tier 1 ratio as at 30 June 2023 (including profits) was 10.4 per cent. and the Company did not, therefore, meet its Combined

Buffer Requirement. However the Company continued to meet its minimum capital requirements and end-state MREL requirement.

*Capital ratios and requirements*

| | 30 June 2023 | Minimum requirement excluding buffers[1] | Minimum requirement including buffers[1] |
|---|---|---|---|
| | | *(unaudited)* *(%)* | |
| CET1 | 10.4 | 4.7 | 8.2 |
| Tier 1 | 10.4 | 6.3 | 9.8 |
| Total regulatory capital | 13.2 | 8.4 | 11.9 |
| Total regulatory capital plus MREL | 18.1 | 16.7 | 20.2 |

Note:

(1) Excluding any confidential buffer, where applicable. Countercyclical buffer increased by 1 per cent. to 2 per cent. on 5 July 2023. The minimum requirements (including buffers) in this table do not reflect the increase in the countercyclical buffer.

In May 2023, the Group completed the implementation of the Company as its holding company, marking an important milestone in meeting its requirements in respect of the Bank of England's resolution framework. Upon implementation, the Company was substituted as principal debtor in the place of Metro Bank in respect of the Existing MREL Notes, which have a call date on 8 October 2024.

**Results of Operations for the years ended 31 December 2022 and 2021**

Underlying loss before tax for the year ended 31 December 2022 reduced to £50.6 million in 2022, down from £171.3 million in 2021 as a result of strong income growth combined with continued tight cost discipline. On a statutory basis losses before tax reduced to £70.7 million in 2022 (2021: £245.1 million) as the Group continued to address certain legacy issues and their associated remediation costs.

In 2022, the Group recognised an ECL expense of £39.9 million (2021: £22.4 million). This was due to an uncertain economic backdrop and the Group's approach to origination.

The Group remained deposit funded with a loan-to-deposit ratio as at 31 December 2022 of 82 per cent. (31 December 2021: 75 per cent.) and retained a strong liquidity position.

While the Group continued to operate in capital buffers, it remained above regulatory minima throughout 2022. The Group took active measures to protect its capital ratios by constraining asset origination to around replacement levels. This, combined with a return to profitability, led to capital ratios beginning to stabilise in the fourth quarter of 2022. At 31 December 2022 the Group's CET1, Tier 1 and total capital plus MREL ratios were 10.3 per cent., 10.3 per cent. and 17.7 per cent. respectively (31 December 2021:12.6 per cent., 12.6 per cent. and 20.5 per cent.).

***Income statement***

| | 2022 | 2021 | Change |
|---|---|---|---|
| | *(£ million)* | | *(%)* |
| Underlying net interest income | 404.2 | 295.7 | 37 |
| Underlying non-net interest income | 117.9 | 102.2 | 15 |
| **Total underlying income** | 522.1 | 397.9 | 31 |
| Underlying operating expenses | (532.8) | (546.8) | (3) |
| ECL expense | (39.9) | (22.4) | 78 |
| **Underlying loss before tax** | (50.6) | (171.3) | (70) |
| Non-underlying items | (20.1) | (73.8) | (73) |
| **Statutory loss before tax** | (70.7) | (245.1) | (71) |

*Income*

Underlying net interest income rose by 37 per cent. to £404.2 million in 2022 (2021: £295.7 million), driven by an increase in net interest margin which rose 52 bps to 1.92 per cent. (2021: 1.40 per cent.). This was a result of active management of the deposit base to maintain a low cost of deposits, continued balance sheet management including growing the Group's mortgage and consumer finance portfolios, together with the benefits of higher Bank of England base rates.

Current account balances in 2022 increased by £570 million, or 8 per cent., from 2021, while the Group continued the managed reduction in higher rate fixed-term accounts. The result of these actions saw the cost of deposits remain significantly below the base rate at 0.20 per cent. (2021: 0.24 per cent.).

*Non-interest income*

Non-interest income growth reflected the normalisation of volumes following 2021 COVID-19 related restrictions. Underlying non-interest income increased to £117.9 million during 2022 (2021: £102.2 million), driven largely by continued fee growth, in part by higher customer transaction fees. This included a 23 per cent. increase in income from customer foreign currency transactions, which rose to £34.1 million in 2022 from £27.7 million in 2021.

Service charges and other fee income also increased, rising to £30.9 million in 2022 from £25.5 million in 2021, as the Group continued to grow its customer base and service their financial needs. This was particularly the case for SMEs, where the Group believes its service approach fills a need that is largely underserved by the wider market.

Safe deposit box income increased to £16.5 million in 2022 (2021: £15.1 million), with new net safe deposit box openings in existing stores offsetting the loss from the net stores reduction. In 2022, visits to safe deposit boxes eventually exceeded pre-pandemic levels.

*Operating expenses*

| | **2022** | **2021** |
|---|---|---|
| Underlying cost-to-income ratio | 102% | 137% |
| Statutory cost-to-income ratio | 106% | 153% |

Underlying operating expenses fell by 3 per cent. year-on-year to £532.8 million in 2022 (2021: £546.8 million). This reduction in costs, combined with rising income, saw the Group's underlying cost-to-income ratio improve from 137 per cent. in 2021 to 102 per cent. in 2022.

The largest component of the Group's cost base is people costs. In 2022, these fell by 1 per cent. to £236.6 million (2021: £239.0 million). This was despite an average 5 per cent. salary rise given to colleagues in March 2022, which was followed by a further cost of living increase for all but the most senior colleagues in December 2022. In addition to this, the Group's management of its underlying non-people related expenses resulted in a 4 per cent. year-on-year reduction from £307.8 million in 2021 to £296.2 million in 2022 in these costs.

Depreciation and amortisation charges fell during the year, reducing from £80.2 million to £77.0 million as the pace of the Group's investment slowed from the peak spending set out as part of the Group's transformation plan.

*Non-underlying items*

| | 2022 | 2021 | Change |
|---|---|---|---|
| | *(£ millions)* | | *(%)* |
| Impairment and write-off of property, plant, equipment and intangible assets | (9.7) | (24.9) | (61) |
| Remediation costs | (5.3) | (45.9) | (88) |
| Transformation costs | (3.3) | (8.9) | (63) |
| Business acquisition and integration costs | — | (2.4) | n/a |
| Mortgage portfolio sale | — | 8.3 | n/a |
| Holding company insertion costs | (1.8) | — | n/a |
| **Non-underlying items** | (20.1) | (73.8) | (73) |

Total statutory operating expense fell from £641.2 million in 2021 to £554.3 million in 2022. This was due to the resolution of certain legacy issues (as discussed below) and the functionality delivered under the Group's transformation plan.

In 2022 the OFAC investigation into sanctions breaches was concluded with no financial penalty. In December 2022, the Group also settled with the FCA in respect of the 2019 RWA matter for £10 million, within the range outlined the prior year. The Group recognised a provision of £5 million in respect of this matter during 2021, with the remainder recognised within remediation costs during 2022.

The Group added one new non-underlying item in 2022, which was the expected costs related to implementation of the Group's holding company, which was required to be in place by June 2023. These costs were treated as non-underlying due to their one-off nature.

*Expected credit loss expense*

| | ECL Allowance | Coverage ratio | NPL ratio |
|---|---|---|---|
| | *(£ millions)* | *(%)* | |
| **31 December 2022** | | | |
| Retail mortgages | 20 | 0.26 | 1.45 |
| Consumer lending | 75 | 5.07 | 3.38 |
| Commercial | 92 | 2.21 | 4.59 |
| **Total lending** | 187 | 1.41 | 2.65 |
| **31 December 2021** | | | |
| Retail mortgages | 19 | 0.28 | 1.70 |
| Consumer lending | 42 | 4.72 | 2.36 |
| Commercial | 108 | 2.23 | 6.75 |
| **Total lending** | 169 | 1.36 | 3.71 |

ECL expense increased 78 per cent. during 2022 to £39.9 million (2021: £22.4 million). This increase was due to both the uncertain economic outlook and high inflationary environment that has emerged during the year, as well as increased consumer lending within the Group's asset mix.

The majority of the ECL charge was due to a £33 million increase in consumer impairments in 2022. The consumer coverage ratio ended 2022 at 5.07 per cent. (31 December 2021: 4.72 per cent.) as these balances began to mature.

NPLs represented 2.65 per cent. of gross lending (31 December 2021: 3.71 per cent.). The Group's mortgage portfolio had an average DTV of 56 per cent. (31 December 2021: 55 per cent.). In 2022, the Group's consumer portfolio had an average borrower income for RateSetter loans of £48,000.

The Group's new origination quality remained strong and mortgage applicant quality, as measured through credit scorecards, remained stable over the course of 2022. The proportion of new business with a LTV over

80 per cent. decreased from 41 per cent. in 2021 to 18 per cent. in 2022. In the RateSetter loan portfolio, the proportion of higher rated credit scoring applicants has increased during the year as did the average income of customers for new loans.

The impact of high inflation, exacerbated by the Russian invasion of Ukraine led to deterioration in the economic outlook during the year. Within the retail mortgage portfolio, impairments increased by £1 million.

In the commercial real estate portfolio, balances fell to £681 million as at 31 December 2022 from £837 million in 2021. Across the commercial portfolio, the average DTV was 55 per cent. as at 31 December 2022 (31 December 2021: 57 per cent.). The reduction in commercial ECL allowance from £108 million as at 31 December 2021 to £92 million as at 31 December 2022 reflected the continued repayment of balances combined with the write-off of a number of individually assessed impairments on larger loans.

The Group continued to evolve its ECL models and where necessary apply expert judgements in the form of Post Model Overlays ("**PMOs**") and Post Model Adjustments ("**PMAs**") to capture emerging factors not captured by the models. This resulted in the proportion of expected credit losses made up of PMOs and PMAs falling to 16 per cent. of as at 31 December 2022, down from 26 per cent. as at 31 December 2021.

***Balance sheet for the years ended 31 December 2022 and 2021***

*Lending*

| | **31 December** | | |
|---|---|---|---|
| | **2022** | **2021** | **Change** |
| | *(£ millions)* | | *(%)* |
| Retail mortgages | 7,649 | 6,723 | 14 |
| Consumer lending | 1,480 | 890 | 66 |
| Commercial | 4,160 | 4,846 | (14) |
| **Gross lending** | 13,289 | 12,459 | 7 |
| ECL allowance | (187) | (169) | 11 |
| **Net lending** | 13,102 | 12,290 | 7 |

Net lending increased by 7 per cent. from 31 December 2021 to 31 December 2022, ending at £13,102 million at 31 December 2022 (31 December 2021: £12,290 million) with retail mortgages continuing to form the majority of lending at 58 per cent. of the portfolio as at 31 December 2022 (31 December 2021: 54 per cent.). In 2022 the Group received over £4 billion in mortgage applications, up 83 per cent. from 2021. The Group also completed over £2.1 billion of mortgage lending in 2022 (up 90 per cent. year-on-year).

The Group's retail mortgage portfolio continued to be primarily focused on owner occupied loans. These made up 72 per cent. of balances as at 31 December 2022 (31 December 2021: 75 per cent.) with the remainder consisting of retail buy-to-let mortgages.

As at 31 December 2022, 10 per cent. of retail mortgages were variable rate (31 December 2021: 13 per cent.) with the remainder having a weighted average life of 2.45 years before they reprice (31 December 2021: 1.95 years).

As at 31 December 2022, consumer lending formed 11 per cent. of gross lending, up from 7 per cent. as at 31 December 2021. As well as providing greater risk-adjusted returns than some of the Group's historic lending, the Group's unsecured loans have relatively short lives, allowing it to replace this lending more regularly as interest rates rise.

Commercial balances fell 14 per cent. to £4,160 million as at 31 December 2022 (31 December 2021: £4,846 million) reflecting active portfolio management combined with the roll-off of COVID-19 related government-backed lending balances. As at 31 December 2022, government-backed lending made up 37 per cent. of commercial term lending (31 December 2021: 38 per cent.), the majority of which consisted of amounts lent under the BBLS. During 2022, the Group claimed back £349 million (2021: n/a) in respect of defaulted BBLS loans.

*Investment securities*

In 2022 the Group took the opportunity presented by rising gilt yields to redeploy surplus cash balances into capital-efficient treasury assets.

As a result of this, combined with lending growth and the active reduction of high-cost fixed deposits, cash and balances at the Bank of England fell from £3,568 million as at 31 December 2021 to £1,956 million as at 31 December 2022, with investment securities rising to £5,914 million (31 December 2021: £5,574 million).

Interest income earned on investment securities during the year ended 31 December 2021 rose from £23.2 million to £67.6 million in the year ended 31 December 2022.

As at 31 December 2022, 68 per cent. of the Group's investment securities had a AAA credit rating (31 December 2021: 73 per cent.). The remaining investment securities were all AA- or higher, the majority of which consisted of UK gilts.

*Other assets*

Intangible assets reduced 11 per cent. from 31 December 2021 to 31 December 2022 as the pace of investment slowed in line with the Group's transformation plan.

Property, plant and equipment balances continued to fall as the Group retained its pause on future store growth in 2022. Depreciation charges for the year 2022 offset the small level of additions in respect of the Leicester store, which opened at the start of 2022, and the purchase of two freeholds during the year.

*Deposits*

| | **31 December** | | |
|---|---|---|---|
| | **2022** | **2021** | **Change** |
| | *(£ millions)* | | *(%)* |
| Retail customer (excluding retail partnerships) | 5,797 | 6,713 | (14) |
| Retail partnership | 1,949 | 1,814 | 7 |
| Commercial customers (excluding SMEs) | 3,188 | 3,157 | 1 |
| SMEs | 5,080 | 4,764 | 7 |
| **Total customer deposits** | 16,014 | 16,448 | (3) |
| *Of which:* | | | |
| Demand: current accounts | 7,888 | 7,318 | 8 |
| Demand: savings accounts | 7,501 | 7,684 | (2) |
| Fixed term: savings accounts | 625 | 1,446 | (57) |

Deposit balances fell 3 per cent. year-on-year to £16,014 million as at 31 December 2022 (31 December 2021: £16,448 million) as the Group continued to allow fixed rate balances to roll off while continuing to acquire more business and personal current accounts during the year.

As at 31 December 2022 current accounts made up 49 per cent. of deposits (31 December 2021: 44 per cent.). This aided in the cost of deposits falling from 0.24 per cent. in 2021 to 0.20 per cent in 2022. The base rates rises during the year led to an increase in interest expense on savings accounts, albeit at a lower rate than the base rate increases, reflecting the quality of the Group's deposits and the value of its model.

*Wholesale funding and liquidity*

The Group's loan-to-deposit ratio as at 31 December 2022 was 82 per cent. (31 December 2021: 75 per cent.).

Alongside its deposit base, the Group continued to utilise wholesale funding in the form of the Bank of England's TFSME. The cost of this funding is linked directly to the base rate and therefore rose from £4.0 million in 2021 to £55.5 million in 2022. Despite this increase, it remained an additional stable cost of funding and is accretive to net interest income. The Group's TFSME drawdowns will start to mature in 2024 and continue through until 2027.

*Lease liabilities*

| | **Minimum lease payments as at 31 December 2022** |
|---|---|
| | *(£ millions)* |
| Within one year | 24 |
| One to five years | 88 |
| Five to 10 years | 92 |
| Over 10 years | 80 |

Lease liabilities fell by 8 per cent. during the year to £248 million as at 31 December 2022 (31 December 2021: £269 million) reflecting the continued pay down of the Group's leases, combined with the freehold purchases in the year as well as the surrendering of the lease on one of the sites closed.

As at 31 December 2022, the Group's leases had an average remaining minimum term of 11 years, with the majority of minimum lease payments falling within the next 10 years.

***Taxation***

The Group recognised a statutory tax charge of £2.0 million during 2022 (2021: charge of £3.1 million). The small tax charge resulted primarily from current year losses for which no deferred tax asset was recognised as well as statutory loss being adjusted for non-deductible expenses.

The Group had a total of £859 million of brought forward tax losses on which it did not recognise a deferred tax asset of £215 million as at 31 December 2022. The Group expects to re-recognise these assets on the balance sheet in the coming years as it establishes a track record of sustainable profitability and there is no time limit beyond which they expire.

In 2022 the Group made a total tax contribution of £143.7 million (2021: £152.5 million) made up of £76.0 million (2021: £91.6 million) taxes paid and a further £67.7 million (2021: £60.9 million) of taxes collected.

***Capital***

*Overview*

As at 31 December 2022, the Group had CET1, Tier 1 and total capital plus MREL ratios of 10.3 per cent., 10.3 per cent. and 17.7 per cent. respectively (31 December 2021: 12.6 per cent., 12.6 per cent. And 20.5 per cent.).

| | **2022** | **2021** | **Change** |
|---|---|---|---|
| | *(£ millions)* | | *(%)* |
| CET1 capital | 819 | 936 | (13%) |
| RWAs | 7,990 | 7,454 | 7% |
| CET1 ratio | 10.3% | 12.6% | (230bps) |
| Total regulatory capital ratio | 13.4% | 15.9% | (250bps) |
| Total regulatory capital plus MREL ratio | 17.7% | 20.5% | (280bps) |
| UK regulatory leverage ratio | 4.2% | 5.2% | (100bps) |

The Group continued to operate in capital buffers although it remained above regulatory minima throughout 2022 and its return to profitability combined with constraining lending growth should see the Group return to steady capital generation.

The Group remained engaged with the PRA in respect of its capital position as well as in relation to its AIRB application.

*Capital requirements*

| | Minimum requirement including buffers[1] 31 December 2022 |
|---|---|
| CET1 | 8.3% |
| Tier 1 | 9.9% |
| **Total Capital plus MREL** | 20.5% |

Note:
(1) Excluding any confidential buffer, where applicable.

In 2022, the Group's capital requirement reduced following the PRA's decision in June to reduce the Group's Pillar 2A capital requirement from 1.11 per cent. to 0.50 per cent. The Bank of England further agreed that the Group's binding MREL requirement applicable from 27 June 2022 would be equal to the lower of:

- 18 per cent. of RWAs; and
- two times the sum of the Group's Pillar 1 and Pillar 2A.

In December 2022, the PRA confirmed a further reduction to the Group's Pillar 2A capital requirement from 0.50 per cent. to 0.36 per cent., effective from 1 January 2023, meaning that the Group's MREL requirement (excluding buffers) reduced further to 16.7 per cent.

*Capital movements*

| | Total regulatory capital + MREL ratio |
|---|---|
| **1 January 2022** | 20.5% |
| Lending volume & mix | (1.5%) |
| Software add-back reversal | (0.8%) |
| Profit & loss account ex-ECL | (0.4%) |
| Profit & loss account ECL | (0.5%) |
| Intangibles and other | 0.4% |
| **31 December 2022** | 17.7% |

In 2022, the Group's CET1 and MREL ratios decreased by 0.8 per cent. and 0.7 per cent. respectively, due to software assets becoming fully deducted from capital from 1 January 2022.

At the same time the original IFRS 9 'Financial Instruments' transitional relief was reduced from 50 per cent. to 25 per cent. along with the COVID-19 transitional relief which moved from 100 per cent. to 75 per cent. In addition, CET1 and MREL were reduced by 0.3 per cent. A further 25 per cent. reduction in the transitional reliefs occurred on 1 January 2023, leading to a further reduction in the Group's CET1 and MREL ratios of 0.4 per cent. and 0.3 per cent. respectively.

As at 31 December 2022, RWAs were £7,990 million, an increase of 7 per cent. from £7,454 million at 31 December 2021. This increase reflected the Group's lending growth and change in asset mix during the year.

**Results of Operations for the years ended 31 December 2021 and 2020**

***Income statement***

| | 2021 | 2020 | Change |
|---|---|---|---|
| | *(£ millions)* | | *(%)* |
| Underlying net interest income | 295.7 | 250.3 | 18 |
| Underlying net fee and other income | 101.5 | 86.3 | 18 |
| Underlying net gains on sale of assets | 0.7 | 4.3 | (84) |
| **Total underlying income** | 397.9 | 340.9 | 17 |
| Underlying operating expenses | (546.8) | (486.0) | 13 |
| Expected credit loss expense | (22.4) | (126.7) | (82) |
| **Underlying loss before tax** | (171.3) | (271.8) | (37) |
| Non-underlying items | (73.8) | (39.6) | 86 |
| **Statutory loss before tax** | (245.1) | (311.4) | (21) |

The Group recognised a statutory loss before tax of £245.1 million in 2021, down from the £311.4 million loss recognised in 2020, with the decrease primarily due to the £104.3 million lower charge for expected credit losses.

The Group signed a £3.1 billion mortgage portfolio divestment in 2021, providing both regulatory capital headroom and liquidity at a time of uncertainty with the country in the COVID-19 lockdown. The disposal supported the Group's strategic goal of maximising risk-adjusted returns on capital, as it reinvested £337 million of the proceeds to acquire the *RateSetter* back book of consumer loans with an average total gross yield of approximately 8 per cent. in 2021; that compared to the divested mortgage portfolio which had a weighted average rate of 2.1 per cent.

On an underlying basis, the loss for the year ended 31 December 2021 of £171.3 million was down 37 per cent. compared to the prior year (2020: £271.8 million), driven by lower expected credit losses and positive operating jaws. Operating expenses increased 13 per cent. year-on-year and income increased 17 per cent., despite £63 million of lost income as a result of the mortgage portfolio sale during 2021.

In 2021, the Group continued to focus on shifting its deposit mix, which led to the cost of deposits falling from 0.65 per cent. in 2020 to 0.24 per cent. in 2021. Alongside this the Group delivered an increasing lending yield and its approach of optimising the balance sheet led to the Group generating a greater level of interest income as a proportion of risk-weighted assets.

The Group ended the year with a CET1 capital ratio of 12.6 per cent. and a Total Capital plus MREL ratio of 20.5 per cent. These compared to the regulatory minima of 5.1 per cent. and 18.0 per cent., respectively, or 9.3 per cent. and 20.5 per cent., respectively, including buffers (excluding any confidential buffer, if applicable).

The Group's primary aim in 2021 remained the transformation of the Group and in doing so it took a prudent approach in its assessment of the pace of economic recovery. The Group recognised an expected credit loss expense of £22.4 million for the year ended 31 December 2021 which was a significant improvement on the prior year (2020: £126.7 million).

| | 2021 |
|---|---|
| | *(£ millions)* |
| **Underlying loss before tax** | (171.3) |
| Impairment and write-off of PPE and intangible assets | (24.9) |
| Remediation costs | (45.9) |
| Transformation costs | (8.9) |
| Business acquisition costs | (2.4) |
| Portfolio sale | 8.3 |
| **Statutory loss before tax** | (245.1) |

*Income*

Underlying net interest income increased 18 per cent. year-on-year to £295.7 million in 2021 (2020: £250.3 million), reflecting increased front book yields, including the Group's entry into the personal lending market, combined with actions the Group took to reduce the cost of deposits.

Net interest margin at 1.40 per cent. in 2021 was 0.18 per cent. above 2020 (1.22 per cent.) reflecting the higher-yielding asset mix and lower cost of deposits. The average lending yield increased to 3.07 per cent. in 2021 from 2.68 per cent. in 2020 benefitting from high consumer lending yields and an improvement in the blended mortgage lending yield reflecting the Group's focus on specialist mortgage products. Meanwhile the Group's emphasis on current accounts and instant access deposits combined with the roll-off of higher-rate fixed-term accounts reduced the cost of deposits meaningfully to 0.24 per cent. in 2021 compared to 0.65 per cent. in 2020.

*Fee, commission and other income*

Fee, commission and other income remained below pre-pandemic levels as the lockdowns at the start of 2021 continued to constrain activity. However, as restrictions started to be lifted in the second half of 2021, the Group saw an uptick in activity particularly in areas such as foreign exchange, where volumes had been significantly depressed throughout the pandemic. The Group's ability to grow income streams from fees and commission incomes was influenced by the pace of recovery from the pandemic.

*Operating expenses*

Underlying operating expenses grew to £546.8 million in 2021 from £486.0 million in 2020. The year-on-year increase was impacted by several factors, including the acquisition of RateSetter which occurred in September 2020.

On a statutory basis total operating expenses increased by less than 4 per cent. to £641.2 million in 2021 compared to £617.3 million in 2020 as the underlying cost increase, including the additional *RateSetter* running costs, was partially offset by lower write downs and BCR costs together with reduced transformation and integration expenditure.

Depreciation and amortisation remained largely unchanged at £80.2 million in 2021 (2020: £74.4 million).

| | 2021 | 2020 | Change |
|---|---|---|---|
| | *(£ millions except where otherwise indicated)* | | *(%)* |
| Depreciation and amortisation | 80.2 | 74.4 | 8 |
| Total operating expenses | 641.2 | 617.3 | 4 |
| Non-underlying operating expenses | 94.4 | 131.3 | (28) |
| Underlying operating expenses | 546.8 | 486.0 | 13 |
| 'Run the Bank' costs | 435.5 | 390.4 | 12 |
| 'Change the Bank' costs | 111.3 | 95.6 | 16 |
| Statutory cost: income ratio (%) | 153 | 143 | |
| Underlying cost: income ratio (%) | 137 | 143 | |

Remediation programmes continued to be a significant expense with associated costs of £45.9 million recognised in 2021 (2020: £40.8 million). These costs included the penalty resulting from the PRA investigation, which was concluded in December 2021, as well as a provision for the settlement of the related FCA investigation.

Non-underlying costs for 2021 also reflected the decision taken to close three stores in 2022. This resulted from the Group's regular review of how its existing stores are performing as well as assess new markets where there is potential for growth in the longer term. The three stores had consistently underperformed compared to other locations and upcoming lease events provided the Group with an opportunity to close. The Group remained committed to stores and continued to invest in them. In 2021 the Group opened its 78th store in Bradford, alongside preparing to launch its new store in Leicester in February 2022.

The Group also acquired four further freeholds during the year; which meant a third of its store estate was freehold. By trading right of use assets for freeholds at attractive prices the Group can both reduce costs and gain flexibility for minimal additional risk-weighted assets. The Group continued to pursue such opportunities, although its ability to do so was influenced by the stabilisation of commercial property prices.

*Expected credit loss expense*

Although the macroeconomic environment improved in 2021, uncertainty remained, particularly in respect of new COVID variants and the sustainability of recently lifted public health restrictions. The expected credit loss charge for 2021 of £22.4 million (2020: £126.7 million) was primarily driven by growth in unsecured lending origination, the purchase of the *RateSetter* back book and a small number of large single name commercial cases.

A fourth 'severe downside' macroeconomic scenario was introduced in 2021 across all portfolios, with associated changes in the probability weightings. This aligned the Group's approach to market best practice and further captures the potential risks associated with a more extreme downside scenario.

The Group continued to maintain a prudent level of post model overlays to capture factors that were not fully reflected in the scenarios. These reflected the Group's cautious outlook driven by the impact of higher energy prices, increase in national insurance contributions, and inflationary pressures on individual customer affordability. During the year the Group reduced the overall number of post model overlays applied through the continued development of its models.

Unsecured lending increased significantly in 2021, in line with the Group's strategy. The Group managed this exposure within a defined risk appetite, with a focus on prime lending, underpinned by strong credit scoring criteria to limit losses, which remained low.

***Balance sheet for the years ended 31 December 2021 and 2020***

*Deposits*

| | 2021 | 2020 | Change |
|---|---|---|---|
| | *(£ millions)* | | *(%)* |
| Retail customer (excluding retail partnerships) | 6,713 | 7,364 | (9) |
| Retail partnerships | 1,814 | 1,596 | 14 |
| Commercial customers (excluding SMEs) | 3,157 | 2,692 | 17 |
| SMEs | 4,764 | 4,420 | 8 |
| **Total customer deposits** | 16,448 | 16,072 | 2 |

Deposits grew by 2 per cent. from 31 December 2020 to £16,448 million at 31 December 2021 (31 December 2020: £16,072 million). The increase was primarily driven by commercial and SME customers which were up 17 per cent. and 8 per cent. respectively from the start of the year 2021.

| | 2021 | 2020 | Change |
|---|---|---|---|
| | *(£ millions)* | | *(%)* |
| Demand: current accounts | 7,318 | 6,218 | 18 |
| Demand: savings accounts | 7,684 | 6,430 | 20 |
| Fixed term: savings accounts | 1,446 | 3,424 | (58) |
| **Total customer deposits** | 16,448 | 16,072 | 2 |

Current account balances grew by 18 per cent. during the year 2021 and made up 44 per cent. of total customer deposits as at 31 December 2021 (31 December 2020: 39 per cent.). The Group continued to see customer preference moving towards having instant access to funds, leading to the growth of current accounts and instant access savings accounts, while at the same time the Group proactively let higher cost fixed term deposits roll off as it continued to manage the cost of deposits downwards.

*Assets*

| | 2021 | 2020 | Change |
|---|---|---|---|
| | *(£ millions except where otherwise indicated)* | | *(%)* |
| Loans and advances to customers | 12,290 | 12,090 | 2 |
| Total assets | 22,587 | 22,579 | 0 |
| Loan to deposit (%) | 75 | 75 | |
| Cost of risk (%) | 0.18 | 0.86 | |

Net lending ended the period at £12,290 million, up 2 per cent. from £12,090 million at 31 December 2020. The £200 million increase was driven by a £686 million growth in consumer lending, offset by a moderate reduction in the commercial loans and retail mortgage books. The growth in consumer lending resulted from both organic origination through the RateSetter platform, and the purchase of the £337 million back book from peer-to-peer investors.

Retail mortgages remained the largest component of the lending book at 54 per cent. of gross lending (31 December 2020: 56 per cent.), down £169 million to £6,723 million at 31 December 2021 from £6,892 million at 31 December 2020. The decrease reflected the attrition of older loans, offset by the Group's continued penetration through its specialist mortgage products into underserved areas of the mortgage market, which replaced some of these balances.

Commercial loans, which at 31 December 2021 comprised 39 per cent. of the Group's lending, saw a £302 million reduction from £5,148 million at 31 December 2020.

The decrease was due to older term loans repaying combined with a slowdown and the start of repayments of BBLS loans in the second half, partially offset by government-backed Recovery Loan Scheme lending.

Non-current assets decreased during the period, driven by a reduction in the Group's property, plant and equipment balance, reflecting the scaling back of the Group's store opening programme.

Intangibles remained flat during 2021 as continued investment, albeit at a slower rate, was offset by amortisation and impairment charges.

*Taxation*

During 2021 the Group made a total tax contribution of £152.5 million (2020: £132.9 million), which comprised £91.6 million (2020: £86.5 million) of taxes paid and a further £60.9 million (2020: £46.4 million) of taxes collected.

In 2021 the Group's tax expense recognised in the income statement was £3.1 million (2020: credit of £9.7 million).

***Capital***

| | 2021 | 2020 | Change |
|---|---|---|---|
| | | *(£ millions)* | |
| CET1 capital | 936 | 1,192 | (21%) |
| RWAS | 7,454 | 7,957 | (6%) |
| CET1 ratio | 12.6% | 15.0% | (240bps) |
| Total regulatory capital ratio | 15.9% | 18.1% | (220bps) |
| Total regulatory capital plus MREL ratio | 20.5% | 22.4% | (190bps) |
| Regulatory leverage ratio[(1)] | 4.4% | 5.6% | (1.2%) |

Note:

(1) Following the implementation of PRA Policy Statement 21/21, the basis for the leverage ratio calculation changed on 1 January 2022 to exclude claims on central banks. The Group subsequently disclosed the 2021 *pro forma* figure of 5.2 per cent. in its 2022 Pillar 3 disclosures. As at the date of this document, the Group has not disclosed the *pro forma* equivalent for 2020.

The Group's CET1, Tier 1 and MREL ratios at 31 December 2021 were 12.6 per cent., 12.6 per cent. and 20.5 per cent. respectively, compared to the minimum capital requirement including buffers (excluding any confidential buffer, if applicable) of 7.6 per cent., 9.3 per cent. and 20.5 per cent., respectively.

Although the Group operated in buffers, it remained above regulatory minima as it continued to focus on executing its strategy and returning to sustainable profitability.

Risk-weighted assets ended the period down 6 per cent. to £7,454 million as at 31 December 2021 (31 December 2020: £7,957 million) reflecting the Group's change in asset mix and its focus on improving return on regulatory capital. The reduction was also supported by the settlement of the final tranche of the mortgage portfolio in February 2021. The Group continued to progress its AIRB application, the approval of which would reduce the overall risk-weighting of its lending.

| | **Reconciliation** |
|---|---|
| **Total capital plus MREL ratio at 1 January 2021** | 22.4% |
| Annual operational risk adjustment | (0.1%) |
| Intangibles investment and other | 0.1% |
| RateSetter back book acquisition | (0.3%) |
| Profit and loss account (excluding ECL and mortgage sale) | (3.1%) |
| Profit and loss account – ECL | (0.3%) |
| Quick-fix ECL add back | (0.1%) |
| Lending volume and mix | (0.1%) |
| Mortgage book disposal completion | 2.0% |
| **Total capital plus MREL ratio at 31 December 2021** | 20.5% |

**Liquidity and Capital Resources**

***Liquidity***

The Group manages liquidity risk by maintaining sufficient liquid assets to meet (i) its internal liquidity requirement as defined by the Group's Liquidity Policy that is owned by the Boards and (ii) its regulatory liquidity requirements as measured by the LCR and NSFR. The Group's LCR and NSFR were 214 per cent. and 132 per cent., respectively, as at 30 June 2023.

***Cash flows***

The following table summarises cash flows for the periods indicated:

| | **Year ended 31 December** | | | **Six months ended 30 June** | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | | | | *(unaudited)* | |
| | | *(£ million)* | | | |
| Net cash inflows/(outflows) from operating activities | 1,041 | 2,854 | (1,185) | (73) | 182 |
| Net cash (outflow)/inflow from investing activities | (956) | (2,250) | (402) | (620) | 582 |
| Net cash (outflow) from financing activities | (81) | (29) | (25) | (13) | (12) |
| **Net increase/(decrease) in cash and cash equivalents** | 4 | 575 | (1,612) | (706) | 752 |
| **Cash and cash equivalents at start of period** | 2,989 | 2,993 | 3,568 | 3,568 | 1,956 |
| **Cash and cash equivalents at end of period** | 2,993 | 3,568 | 1,956 | 2,862 | 2,708 |

*Net cash inflows/(outflows) from operating activities*

Net cash inflows from operating activities increased by £1,813 million from £1,041 million in 2020 to £2,854 million in 2021. The principal factor contributing to the increase was the completion of the £3.1 billion mortgage portfolio sale to NatWest in February 2021 (the "**NatWest Mortgage Sale**"). The sale was in line with the Group's strategy to enhance risk-adjusted returns on capital through the ongoing focus on balance sheet optimisation. The sale allowed the Group to increase its MREL resources as well as create additional lending capacity. Due to the Group's capital constraints most of the proceeds were invested in investment securities rather than loaned to customers.

Net cash from operating activities decreased by £4,039 million from an inflow of £2,854 million in 2021 to an outflow of £1,185 million in 2022. The principal factors contributing to the decrease were the impact of the mortgage portfolio sale proceeds in 2021, combined with a £434 million reduction in deposits, as the Group continued to let higher-costing fixed terms savings balances mature.

Net cash inflows from operating activities for the six months ended 30 June 2023 were £182 million. The principal factor contributing to this was a reduction in deposit balances.

*Net cash outflows from investing activities*

Net cash outflows from investing activities increased by £1,294 million from £956 million in 2020 to £2,250 million in 2021. The principal factor contributing to the increase was the utilisation of the proceeds received from NatWest upon the completion of the mortgage sale. The proceeds were used to purchase investment securities due to the lower risk weighting compared to the mortgages that were sold.

Net cash outflows from investing activities decreased by £1,848 million from £2,250 million in 2021 to £402 million in 2022. The principal factor contributing to the decrease was a reduction in the net purchases of investment securities, which were higher in 2021 due to the use of the cash received from the NatWest Mortgage Sale.

Net cash inflows from investing activities for the six months ended 30 June 2023 was £582 million. The principal factor contributing to this were sales, redemptions and paydowns of investment securities, which were partially offset by purchases of investment securities.

*Net cash outflows from financing activities*

Net cash outflows from financing activities decreased by £52 million from £81 million in 2020 to £29 million in 2021. The principal factor contributing to the decrease was the one-off repayment of £50 million of C&I funds during 2020, following an agreement reached with BCR in 2019 to alter the grant commitments.

Net cash outflows from financing activities decreased by £4 million from £29 million in 2021 to £25 million in 2022. The principal factor contributing to the decrease was a reduction in lease repayments as a result of the Group pausing store openings and the acquisition of two store freeholds during the year.

Net cash outflows from financing activities for the six months ended 30 June 2023 were £12 million. The principal factor contributing to this was the continued repayment of leases by the Group in respect of its store portfolio.

***Capital expenditure***

In 2020, 2021 and 2022, and in the six months ended 30 June 2023, the Group's capital expenditure was £105 million, £81 million, £53 million and £17 million, respectively, and principally comprised expenditure related to the development of intangible assets, the purchasing of freehold property and a limited number of store openings. The Group estimates that it will have approximately £35 million of capital expenditure in 2023.

### Capital management

***Overview***

The Directors are required to consider all material risks to which the Group is exposed and determine the capital required to ensure that, under both normalised and stressed conditions, the Group has sufficient capital to meet internal and regulatory capital requirements.

The Group must maintain a certain level of capital to meet several requirements, including:

- to meet regulatory capital requirements;

- to ensure that the Group can meet its business objectives, including its growth objectives;
- to ensure that the Group can withstand future uncertainty, such as economic stress; and
- to provide assurance to depositors, customers, shareholders and other third parties.

Management produces regular assessments of the current and forecasted level of capital, as well as the results of stress testing, to the Directors and the Risk Oversight Committee. The Group complied with all minimum regulatory capital requirements throughout the year ended 31 December 2022 and the six months ended 30 June 2023.

**Capitalisation**

The Group has levels of capital in excess of the requirements set by the PRA. As at 30 June 2023:

- the Group's fully loaded CRD IV CET1 ratio was 10.4 per cent.;
- the Group's Total Capital Ratio was 13.2 per cent.; and
- the Group's Leverage Ratio was 4.4 per cent.

On 5 July 2023 the scheduled increase in the countercyclical capital buffer came into effect, increasing the level from 1 per cent. to 2 per cent. Accordingly, Metro Bank's Tier 1 requirement, including the combined public buffers, increased from 9.8 per cent. to 10.8 per cent. Metro Bank's Tier 1 ratio as at 30 June 2023 (including profits) was 10.4 per cent. and Metro Bank is therefore now operating within buffers for Tier 1 capital as well as MREL, however Metro Bank remains above all of its minimum capital requirements.

The table below sets forth the Group's total capital, split by type of capital, as at 30 June 2023.

| | **As at 30 June 2023** |
|---|---|
| | *(unaudited)* |
| CET1 ratio (%) | 10.4 |
| Total regulatory capital (%) | 13.2 |
| Total risk-weighted assets (£ million) | 7,802 |

The table below sets forth the composition of the Group's CET1 capital as at 30 June 2023.

| | **As at 30 June 2023** |
|---|---|
| | *(unaudited)* *(£ million)* |
| Total Equity | 970 |
| *add* IFRS 9 transition adjustment | 47 |
| *less* intangible assets | (207) |
| *less* deferred tax asset | (12) |
| *add* deferred tax liability on goodwill | 6 |
| *add* other regulatory adjustments | 9 |
| **Total CET1** | 813 |

**Off-Balance Sheet Items**

As at 30 June 2023, the Group had entered into £1.1 billion off-balance sheet transactions, primarily relating to undrawn loan facilities granted to Retail and Commercial customers, including committed lending as well as unused credit card, overdraft and revolving credit facilities.

**Liquidity**

Liquidity is held by the Group in a range of investment-grade investments in Government bonds, sovereign, supranational and agency bonds, covered bonds, retail mortgage-backed securities and other asset-backed

securities. The Group maintains levels of liquidity that are in excess of those required by the PRA, and as at 30 June 2023, the Group had an LCR of 214 per cent. and an NSFR of 132 per cent.

**Critical Accounting Policies**

The discussion and analysis of the Group's financial condition and results of operations are based on the Group's financial information, which has been prepared in accordance with IFRS. The preparation of this financial information requires management to make estimates and judgements that affect the reported amounts of income, expenses, assets and liabilities and the related disclosure of contingent assets and liabilities. Estimates are based on available information and experience. Actual results could differ from these estimates. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the Historical Financial Information are described in Note 1 to the 2022 Annual Report and Accounts. For a detailed description of the Group's significant accounting policies, see Note 1 to the 2022 Annual Report and Accounts.

# PART V

## HISTORICAL FINANCIAL INFORMATION

Metro Bank and its subsidiaries audited consolidated financial statements as at and for each of the financial years ended 31 December 2020, 2021 and 2022 are incorporated into this document by reference to the 2020 Financial Statements, the 2021 Financial Statements and the 2022 Financial Statements. The Group's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2023 and the unaudited condensed consolidated financial information as at and for the six months ended 30 June 2022 is incorporated into this document by reference to the 2023 Interim Financial Statements.

# PART VI

## CAPITALISATION AND INDEBTEDNESS

The following table sets out the Group's capitalisation as at 30 June 2023.

| | As at 30 June 2023 |
|---|---|
| | *(unaudited)* *(£ million)* |
| Share capital[1] | — |
| Share premium[1] | — |
| Legal reserve(s) | n/a |
| Other reserves | 8 |
| **Total capitalisation** | 8 |

Note:

(1) As set out in note 1 to the Group's consolidated interim financial statements for the six months ended 30 June 2023, on 19 May 2023, the Company became the listed entity and new holding company of Metro Bank. As part of the insertion of the Company, the existing listed share capital and share premium of Metro Bank was cancelled and the share capital and share premium amounts transferred to retained earnings. Metro Bank subsequently issued the same number of new unlisted £0.000001 ordinary shares to the Company.

The capitalisation information has been extracted without adjustment from the Group's financial information as at 30 June 2023. This excludes the Group's retained earnings and there has been no material change in the Group's capitalisation since 30 June 2023.

The following table sets out the Group's net indebtedness as at 30 September 2023.

| | As at 30 September 2023 |
|---|---|
| | *(unaudited)* *(£ million)* |
| **Current financial debt (including current portion of non-current debt)** | **871** |
| Guaranteed | n/a |
| Secured[1] | 849 |
| Unguaranteed and unsecured (including financial leases) [2] | 22 |
| **Non-current financial debt (excluding current portion of non-current debt)** | **3,850** |
| Guaranteed | n/a |
| Secured[3] | 3,050 |
| Unguaranteed and unsecured (including financial leases) [4] | 800 |
| | |
| **Net financial indebtedness** | |
| A. Cash | 2,872 |
| B. Cash equivalents | n/a |
| C. Other current financial assets | 5,080 |
| **D. Liquidity (A+B+C)** | **7,952** |
| E. Current bank debt | n/a |
| F. Current portion of non-current debt | n/a |
| G. Current other financial debt | 871 |
| **H. Current financial debt (E+F+G)** | **871** |
| **I. Net current financial debt (H-D)** | **(7,081)** |
| J. Non-current bank debt | n/a |
| K. Bonds issued | 585 |
| L. Non-current other financial debt | 3,265 |
| **M. Non-current financial debt (J+K+L)** | **3,850** |
| **N. Net financial debt excluding impact of debt derivatives qualifying as hedges (I+M)** | **(3,232)** |
| O. Debt derivatives qualifying as hedges and other derivatives | (6) |
| **P. Net financial debt including impact of debt derivatives qualifying as hedges (N+O)** | **(3,238)** |

Notes:

(1) Secured current financial debt represents the Group's repurchase agreements.

(2) Unguaranteed and unsecured current financial debt represents the current portion of the Group's lease liabilities.

(3) Secured non-current financial debt represents the Group's drawings under the Bank of England's TFSME.

(4) Unguaranteed and unsecured non-financial debt represents the Group's issued debt securities together with the non-current element of its lease liabilities.

# PART VII

# UNAUDITED *PRO FORMA* FINANCIAL INFORMATION

## SECTION A: Unaudited *pro forma* financial information

The unaudited *pro forma* financial information in this Part VII (comprising an unaudited *pro forma* statement of net assets) has been prepared on a voluntary basis in accordance with Annex 20 to the Prospectus Regulation Rules to illustrate the effect of (i) the net proceeds from the Firm Placing, (ii) the net proceeds from the issuance of the Cash New MREL Notes, and (iii) the issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes on the Group's net assets at 30 June 2023 as if the foregoing had occurred on 30 June 2023.

The unaudited *pro forma* statement of net assets: (i) is based on the unaudited consolidated financial information of the Group as at 30 June 2023; (ii) is compiled on the basis set out in the notes below and in accordance with the accounting policies adopted by the Group for the year ended 31 December 2022; (iii) does not constitute financial statements within the meaning of section 434 of the Companies Act; (iv) has been produced for illustrative purposes only; and (v) because of its nature addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

Shareholders should read the whole of this document and not rely solely on the unaudited *pro forma* financial information in this Part VII.

PricewaterhouseCoopers LLP's report on the unaudited *pro forma* financial information is set out in Section B of this Part VII.

| | | Adjustments | | | |
|---|---|---|---|---|---|
| | **As at 30 June 2023[(1)]** | **Net proceeds from the Firm Placing[(2)]** | **Net proceeds from the issuance of the Cash New MREL Notes[(3)]** | **Issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes[(4)]** | ***Pro Forma* Group** |
| | | | *(unaudited)* *(£ million)* | | |
| **Assets** | | | | | |
| Cash and balances with the Bank of England | 2,708 | 144 | 168 | (42) | 2,978 |
| Loans and advances to customers | 12,572 | — | — | — | 12,572 |
| Investment securities held at fair value through other comprehensive income | 489 | — | — | — | 489 |
| Investment securities held at amortised cost | 4,826 | — | — | — | 4,826 |
| Financial assets held at fair value through profit and loss | 1 | — | — | — | 1 |
| Derivative financial instruments | 26 | — | — | — | 26 |
| Property, plant and equipment | 733 | — | — | — | 733 |
| Intangible assets | 207 | — | — | — | 207 |
| Prepayments and accrued income | 107 | — | — | — | 107 |
| Other assets | 78 | — | — | — | 78 |
| **Total assets** | 21,747 | 144 | 168 | (42) | 22,017 |
| **Liabilities** | | | | | |
| Deposits from customers | 15,529 | — | — | — | 15,529 |
| Deposits from central banks | 3,800 | — | — | — | 3,800 |
| Debt securities | 573 | — | 168 | (73) | 668 |
| Repurchase agreements | 363 | — | — | — | 363 |
| Derivative financial liabilities | 25 | — | — | (25) | — |
| Lease liabilities | 238 | — | — | — | 238 |
| Deferred grants | 17 | — | — | — | 17 |
| Provisions | 5 | — | — | — | 5 |
| Deferred tax liability | 12 | — | — | — | 12 |
| Other liabilities | 215 | — | — | (5) | 210 |
| **Total liabilities** | 20,777 | — | 168 | (103) | 20,842 |
| **Net assets** | 970 | 144 | — | 61 | 1,175 |
| **CET1 resources[(5)]** | 813 | 144 | — | 61 | 1,018 |
| **CET1 ratio[(5)]** | 10.4% | 1.8% | — | 0.8% | 13.1% |

Notes:

(1) The Group financial information as at 30 June 2023 has been extracted, without material adjustment, from the Group unaudited financial information in Part V of this document. No adjustment has been made to reflect trading results of the Group since 30 June 2023.

(2) The adjustment reflects the receipt by the Group of net proceeds from the Firm Placing comprising:

| | |
|---|---|
| Gross proceeds from the Firm Placing | £150 million |
| Less: transaction costs | (£6 million) |
| **Net proceeds from the Firm Placing** | £144 million |

(3) The adjustment reflects the receipt by the Group of net proceeds from the issuance of the Cash New MREL Notes comprising:

| | |
|---|---|
| Gross proceeds from the issuance of the Cash New MREL Notes | £175 million |
| Less: transaction costs | (£7 million) |
| **Net proceeds from the issuance of the Cash New MREL Notes** | £168 million |

(4) The adjustment reflects the impact on the Group's net assets of the issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes, comprising:

| | |
|---|---|
| Haircut of 40% on New Tier 2 Notes | £100 million |
| Release of unamortised issuance fees | (£2 million) |
| Impact from closing out associated hedge accounting relationships | (£25 million) |
| **Net impact on debt securities** | £73 million |
| Transaction costs | (£17 million) |
| Tax credit (effective tax rate of 11.75%) | £5 million |
| **Net impact from the restructure of the Tier 2 Notes and Non-Cash New MREL Notes** | £61 million |

The 40 per cent. haircut applied to the New Tier 2 Notes results in the Group recognising a gain of £100 million. This has been treated as non-taxable as the Group expects to be able to apply the exemption under S.322 (5B) Corporation Tax Act 2009.

Upon derecognition of the Existing Tier 2 Notes and the Existing MREL Notes, the unamortised original issuance fees are recognised immediately within profit and loss. The Existing Tier 2 Notes and Existing MREL Notes had also been entered into hedge accounting relationships for the purposes of managing interest rate risk. Upon the derecognition of both, these hedge accounting relationships are subject to mandatory discontinuation, with any gain or loss impact recognised within profit and loss and a £25 million cash impact on settlement. These items, alongside the associated transaction costs will reduce taxable profit for the year. Under corporate loss restriction rules, profits may only be relieved by up to 50% of brought forward losses. Therefore, the effective corporate tax rate is expected to be 11.75% being half of the 2023 blended corporation tax rate of 23.5%

The net impact from the restructuring of the New Tier 2 Notes and the Non-Cash New MREL Notes in profit and loss forms part of the Group's retained earnings and is all treated as CET1 for regulatory capital purposes.

(5) CET1 resources are set out below on both an unadjusted and on an unaudited *pro forma* basis. The CET1 ratio is the ratio of total CET1 resources to risk-weighted assets. Risk-weighted assets as at 30 June 2023 were £7,802 million. Risk-weighted assets are unaffected by the unaudited *pro forma* adjustments as the cash deposits are assumed to have a zero risk-weighting.

The CET1 requirement has been adjusted to reflect that on 5 July 2023, the countercyclical buffer increased by 1 per cent., leading to an increase in the Combined Buffer Requirement (which comprises the countercyclical buffer of 2 per cent. of RWAs and the capital conservation buffer which is 2.5 per cent. of RWAs) applicable to the Group.

CET1 resources are as follows:

| | | **Adjustments** | | | |
|---|---|---|---|---|---|
| | **Group as at 30 June 2023** | **Net proceeds from the Firm Placing** | **Net proceeds from issuance of the Cash New MREL Notes** | **Issuance of New Tier 2 Notes and Non-Cash New MREL Notes** | ***Pro Forma* Group** |
| | | | *(unaudited)* *(£ million)* | | |
| *CET1* | | | | | |
| Total Equity* | 970 | 144 | — | 61 | 1,175 |
| *less* intangible assets | (207) | — | — | — | (207) |
| *Add* other regulatory adjustments | 50 | — | — | — | 50 |
| **Total CET1** | 813 | 144 | — | 61 | 1,018 |
| Debt securities (Tier 2)** | 217 | — | — | (67) | 150 |
| **Total regulatory capital** | 1,030 | 144 | — | (6) | 1,168 |
| Debt securities (MREL) | 348 | — | 168 | 2 | 518 |
| Tier 2 haircut and amortisation add back | 33 | — | — | (33) | — |
| **Total regulatory capital + MREL** | 1,411 | 144 | 168 | (37) | 1,686 |

* Total equity includes share capital, share premium, retained earnings and other reserves.

** As described more fully in this document, the implementation of the written resolution passed in respect of the Existing Tier 2 Notes will result in the full write-down of the Existing Tier 2 Notes by way of effective exchange into the New Tier 2 Notes.

**SECTION B: Accountants' report on the unaudited *pro forma* financial information**

The directors (the "**Directors**")
Metro Bank Holdings PLC
One Southampton Row
London
WC1B 5HA
United Kingdom

RBC Europe Limited (the "**Sponsor**")
100 Bishopsgate
London
EC2N 4AA
United Kingdom

9 November 2023

Dear Ladies and Gentlemen

**Metro Bank Holdings PLC (the "Company")**

We report on the unaudited pro forma financial information (the "**Pro Forma Financial Information**") set out in Section A of Part VII of the Company's prospectus dated 9 November 2023 (the **"Prospectus"**).

This report is required by section 3 of Annex 20 to the PR Regulation and is given for the purpose of complying with that item and for no other purpose.

**Opinion**

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
(b) such basis is consistent with the accounting policies of the Company.

**Responsibilities**

It is the responsibility of the Directors to prepare the Pro Forma Financial Information in accordance with sections 1 and 2 of Annex 20 to the PR Regulation.

It is our responsibility to form an opinion, as required by section 3 of Annex 20 of the PR Regulation, as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed at the date of their issue.

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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 5.3.2R(2)(f) of the Prospectus Regulation Rules of the Financial Conduct Authority (the "**Prospectus Regulation Rules**") to any person as and to the extent there provided to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 3 to the PR Regulation, consenting to its inclusion in the Prospectus.

**Basis of preparation**

The Pro Forma Financial Information has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how (i) the net proceeds from the Firm Placing; (ii) the net proceeds from the issuance of the Cash New MREL Notes; and (iii) the issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 June 2023.

**Basis of Opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Financial Reporting Council ("**FRC**") in the United Kingdom. We are independent in accordance with the Revised Ethical Standard 2019 issued by the FRC as applied to Investment Circular Reporting Engagements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Declaration**

For the purposes of item 5.3.2R(2)(f) of the Prospectus Regulation Rules we are responsible for this report as part of the Prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report makes no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 3 to the PR Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

# PART VIII

# TAXATION

**UK Taxation**

**The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HMRC published practice (which may not be binding on HMRC), in each case as at the Reference Date, and both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to holders of New Shares resident and, in the case of an individual, domiciled for tax purposes in the United Kingdom and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold shares in the Company as an investment and who are, or are treated as, the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the New Shares and the treatment described is subject to legislative anti-avoidance provisions. Certain categories of shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefiting from certain reliefs or exemptions, those connected with the Company or Group and those for whom the New Shares are employment-related securities may be subject to special rules and this summary does not apply to such shareholders**.

**Holders or prospective holders of New Shares who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately. In particular, holders of New Shares should be aware that the tax legislation of any jurisdiction where such holder is resident or otherwise subject to taxation (as well as the jurisdictions discussed below) may have an impact on the tax consequences of an investment in New Shares including in respect of any income received from those New Shares.**

**Taxation of Dividends on New Shares**

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend (whether the payment is made to a UK resident or a non-UK resident holder of New Shares).

*Individual Shareholders*

The liability to tax on dividends received for a holder of New Share will depend on the individual circumstances of that holder:

Dividends received by a United Kingdom resident individual holder of New Shares from the Company will, except to the extent that they are earned through an ISA or other regime which exempts the dividends from tax, generally be subject to tax as dividend income.

The first £1,000 (the "**Dividend Allowance**") of the total amount of dividend income (including any dividends received from the Company) received by such a holder of New Shares in a tax year will be taxed at a nil rate (and so no income tax will be payable in respect of such amounts). It has been announced that the Dividend Allowance will fall from £1,000 to £500 from 6 April 2024 for individuals who receive dividend income.

If the total dividend income for a tax year of a United Kingdom resident individual holder of New Shares exceeds the Dividend Allowance (such excess being referred to as the "**Taxable Excess**"), then the Taxable Excess will be subject to tax depending on the tax rate band or bands it falls within. The relevant tax rate band is determined by reference to the shareholder's total income charged to income tax (including the dividend income charged at a nil rate by virtue of the Dividend Allowance) less relevant reliefs and allowances (including the shareholder's personal allowance). The Taxable Excess is, in effect, treated as the top slice of any resulting taxable income and:

- to the extent that the Taxable Excess falls below the basic rate limit, the shareholder will be subject to tax on it at the dividend basic rate of 8.75 per cent.;
- to the extent that the Taxable Excess falls above the basic rate limit but below the higher rate limit, the shareholder will be subject to tax on it at the dividend higher rate of 33.75 per cent.; and
- to the extent that the Taxable Excess falls above the higher rate limit, the shareholder will be subject to tax on it at the dividend additional rate of 39.35 per cent.

*Corporate Shareholders*

Holders of New Shares who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. The position of each holder of New Shares will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Company to a holder of New Shares within the charge to corporation tax would fall within an exempt class.

*Non-UK Shareholders*

A holder of New Shares resident or otherwise subject to tax outside the United Kingdom (whether an individual or a body corporate) may be subject to foreign taxation on dividend income under local law. Holders of New Shares to whom this may apply should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

**Taxation of Capital Gains in respect of disposals of New Shares**

Holders of New Shares who are resident in the United Kingdom, or, in the case of individuals, who cease to be resident in the United Kingdom for a period of five years or less, may, depending on their circumstances (including the availability of exemptions or reliefs), be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of New Shares.

*Individual Shareholders*

A disposal or deemed disposal of New Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of the taxation of capital gains.

An individual holder of New Shares who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of New Shares, falls below the basic rate limit applicable in respect of that tax year (the "**Band Limit**") will generally be subject to capital gains tax at the flat rate of 10 per cent. (for the tax year 2023-2024) in respect of any gain arising on a disposal or deemed disposal of New Shares.

An individual Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of New Shares, are more than the Band Limit will generally be subject to capital gains tax at the flat rate of 10 per cent. (for the tax year 2023-2024) in respect of any gain arising on a disposal or deemed disposal of New Shares (to the extent that, when added to the holder's other taxable gains and income in that tax year, the gain is less than or equal to the Band Limit) and at the flat rate of 20 per cent. (for the tax year 2023-2024) in respect of the remainder.

No indexation allowance will be available to an individual shareholder in respect of any disposal or deemed disposal of New Shares. However, each individual has an annual exemption, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £6,000 for the tax year 2023-2024. It has been announced that the annual exemption will fall from £6,000 to £3,000 from 6 April 2024 for individuals who realise gains chargeable to capital gains tax.

*Corporate Shareholders*

Where a holder of New Shares falls within the charge to corporation tax, a disposal or deemed disposal of New Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of corporation tax. Currently, corporation tax is generally charged on chargeable gains at a rate of 25 per cent. If an exemption applies such that gains are exempt from tax, allowable losses do not accrue.

*Non-UK Shareholders*

A holder of New Shares who is not resident for tax purposes in the United Kingdom will not generally be subject to tax on the disposal or deemed disposal of New Shares unless the shareholder is carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate shareholder, a permanent establishment) in connection with which the New Shares are used, held or acquired. Non-UK tax resident shareholders may be subject to non-UK taxation on any gain under local law.

**Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position. They apply to all holders of New Shares, including holders who are not resident or, in the case of an individual, domiciled in the UK. Special rules apply to certain transactions such as transfers of shares to a company connected with the transferor and those rules are not described below. Shareholders should also note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

*Issues Outside of Depositary Receipt Systems and Clearance Services*

No stamp duty or SDRT will arise on the issue of New Shares in registered form by the Company.

*Transfers Outside of Depositary Receipt Systems and Clearance Services*

An agreement to transfer New Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser.

Transfers of New Shares will generally be subject to stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT already paid is generally repayable, normally with interest, and any SDRT charge yet to be paid is cancelled.

*Transfers within CREST*

Paperless transfers of New Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of shares into CREST will not generally be subject to SDRT or stamp duty unless the transfer into CREST is itself for consideration.

*Depositary Receipt Systems and Clearance Services*

Special rules apply where shares in the Company are issued or transferred (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, (including in each case within CREST to a CREST account of such a person). In such circumstances, stamp duty or SDRT may be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration given or, in certain circumstances, the value of the shares.

Following EU and United Kingdom case law, HMRC accepted in published practice that the 1.5 per cent. charge was in breach of EU law so far as it applied to new issues of shares or transfers that were an integral part of a capital raising, and confirmed that it will not seek to collect the 1.5 per cent. charge in these circumstances. However, HMRC's published view is that the 1.5 per cent. SDRT or stamp duty charge continues to apply to other transfers of shares into a clearance service or depositary receipt system (although there are circumstances in which this may not reflect the legal position). The effect of the EU law referred to above continues, as at the Reference Date, to be recognised and followed in the United Kingdom pursuant to the provisions of the European Union (Withdrawal) Act 2018, even though the United Kingdom is no longer part of the EU, and HMRC's published practice remains that the 1.5 per cent. charge will remain disapplied in such cases. Under the Retained EU Law (Revocation and Reform) Act 2023, the effect of the EU law mentioned in this paragraph will cease to be recognised and followed in the UK after the end of 2023. However, the UK government has announced its intention to introduce legislation in Finance Bill 2023-24 (effective from 1 January 2024) to (broadly) preserve the current position so that there should continue to be no 1.5 per cent. SDRT or stamp duty charge on the issue of shares into clearance services or depositary receipt systems and no 1.5 per cent. charge on transfers of shares into clearance services or depositary receipt systems where such transfers are in the course of a capital-raising arrangement. To the extent the legislation is not enacted before 1 January 2024, any interim arrangements covering the period from 1 January 2024 to the date of the enactment of the legislation remain to be confirmed.

No stamp duty or SDRT is payable in respect of paperless transfers and agreements to transfer shares within clearance services or in respect of agreements to transfer interests in depositary receipts, save, in the case of

a clearance service, where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986 as described below.

There is an exception from the 1.5 per cent. charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable for the transfer will arise on any transfer of shares in the Company into such an account and on subsequent agreements to transfer such shares within such account.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

# PART IX

# RULE 9 WAIVER AND ADDITIONAL INFORMATION ON SPALDY INVESTMENTS

**PART A: General information on Spaldy Investments**

**1 Background and Information on Spaldy Investments**

**1.1** Spaldy Investments is a limited company incorporated under the laws of the British Virgin Islands with a registered office at P.O. Box 3175, Aleman, Cordero, Galindo & Lee Trust (BVI) Limited, 3rd Floor, Yamraj Building, Market Square, Road Town, Tortola, British Virgin Islands. Spaldy Investments' principal business and sole purpose is its investment in the Company. Jaime Gilinski Bacal is the sole director, executive officer and shareholder of Spaldy Investments.

**1.2** Jaime Gilinski Bacal holds a number of investments in financial institutions and real estate, primarily in Latin America and the United States. Jaime Gilinski Bacal's other investments include controlling interests in Banco GNB Sudameris, Banco GNB Peru, Banco GNB Paraguay and Lulo Bank, and significant shareholdings in Grupo Sura S.A. and Group Nutresa S.A.

**1.3** Spaldy Investments' participation in the Firm Offer is being funded through existing cash resources available to Spaldy Investments.

**2 Relationships, arrangements and understandings**

**2.1** Jaime Gilinski Bacal is the 100 per cent. shareholder, and therefore the ultimate owner and controller, of Spaldy Investments. Spaldy Investments has no subsidiaries.

**2.2** Dorita Gilinski, a Director of the Company and the daughter of Jaime Gilinski Bacal, is presumed to be acting in concert (as defined in and for the purposes of the City Code) with Spaldy Investments. Other close relatives (as defined in and for the purposes of the City Code) of Jaime Gilinski Bacal, as well as other entities in the Gilinski Group and Jaime Gilinski Bacal himself, are presumed to be acting in concert with Spaldy Investments.

**2.3** Save as disclosed in paragraph 2.2 above, none of Spaldy Investments nor any person who is, or is presumed to be, acting in concert with Spaldy Investments has entered into any relationships (whether personal, financial or commercial), arrangements or understandings with: (i) any of the Independent Directors (or their close relatives and related trusts); (ii) any of the Shareholders (or any person who is, or is presumed to be, acting in concert with any such shareholder); or (iii) RBC (or any person who is, or is presumed to be, acting in concert with RBC) which has any connection with or dependence upon the proposals set out in this document or the implementation of the Firm Placing.

**2.4** Spaldy Investments has not entered into or proposed to enter into any form of incentivisation arrangements with members of the Company's management.

**3 Material Contracts**

Spaldy Investments has entered into: (i) the Relationship Agreement with the Company; and (ii) an Equity Commitment Letter with the Company. The terms of the Relationship Agreement are summarised in paragraph 23.6 of Part X and the terms of the Equity Commitment Letter are summarised in paragraph 9 of Part X. Neither Spaldy Investments nor any other member of its Concert Party has entered into any other material contract (not being a contract entered into in the ordinary course of business) in the last two years.

**PART B: Financial and ratings information relating to Spaldy Investments**

No financial information is available in respect of Spaldy Investments. There are no current ratings or outlooks publicly accorded to Spaldy Investments by ratings agencies.

**4 Spaldy Investments' interests in relevant securities of the Company**

As at the close of business on 27 October 2023, Spaldy Investments (an entity entirely owned and controlled by Jaime Gilinski Bacal) was interested in 15,723,914 Shares, representing 9.1 per cent. of the 'relevant securities' (as defined in paragraph 7.1 of Part X) of the Company.

During the Disclosure Period (as defined in paragraph 7 of Part X), Spaldy Investments has not been involved in any 'disqualifying transactions' as described in Section 3, Appendix 1 of the UK City Code.

Spaldy Investments has, subject to the terms and conditions of an Equity Commitment Letter, committed to subscribe for 340,000,000 New Shares as part of the Firm Placing. Following Admission of the Firm Placing, Spaldy Investments will hold 355,723,914 Shares, which will comprise 52.88 per cent. of the issued share capital of the Company.

# PART X

# ADDITIONAL INFORMATION

## 1 Responsibility

**1.1** Subject to paragraphs 1.2 and 1.3 below, the Company, the Directors accept responsibility for the information contained in this document (including any expressions of opinions). To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document (including any expressions of opinion) is in accordance with the facts and this document makes no omission likely to affect its import.

**1.2** Dorita Gilinski has not participated in the Independent Directors' consideration of the Rule 9 Waiver and take no responsibility for the recommendation in respect of the Rule 9 Waiver Resolution of the Independent Directors set out in paragraph 17 of Part I of this document.

**1.3** Jaime Gilinski Bacal accepts responsibility for the information contained in this document (including any expressions of opinion) relating to Spaldy Investments, and his immediate family, related trusts and companies and persons connected to him. To the best of the knowledge and belief of Jaime Gilinski Bacal (who has taken all reasonable care to ensure that such is the case), the information contained in those parts of the document (including any expressions of opinion) for which he is responsible is in accordance with the facts and those parts of the document make no omission likely to affect their import.

## 2 Incorporation and Registered Office

**2.1** The Company was incorporated and registered in England and Wales under the Companies Act on 29 September 2022, with the registered number 14387040, as a public limited company under the name MB Group Topco PLC and changed its name to Metro Bank Holdings PLC on 12 December 2022. The legal entity identifier of the Company is 984500CDDEAD6C2EDQ64.

**2.2** The principal law and legislation under which the Company operates is the Companies Act and regulations made thereunder.

**2.3** The Company's registered office and principal place of business is at One Southampton Row, London WC1B 5HA, United Kingdom (telephone number: +44 (0)345 08 08 500).

**2.4** The Company's website is at https://www.metrobankonline.co.uk. The information on the Company's website does not form part of this document unless that information is specifically incorporated by reference into this document.

**2.5** The Company was approved by the PRA as a holding company of the Group on 28 February 2023.

## 3 Share Capital

### 3.1 Share Capital on Incorporation

On incorporation, the issued share capital of the Company was fifty thousand and two pounds sterling (£50,002).

### 3.2 Share Capital as at the date of this document

As at the Reference Date, the issued share capital of the Company was £50,172.67, comprising 172,676,547 Shares and 50,000 redeemable preference shares ("**Redeemable Preference Shares**"). The Company's Shares are fully paid ordinary shares with a nominal value of £0.000001 each. The Redeemable Preference Shares are 25 per cent. paid and 75 per cent. unpaid, with a par value of £1.00 each.

The Shares are registered with an ISIN of GB00BMX3W479, and SEDOL of BMX3W47 and are traded on the main market for listed securities of the London Stock Exchange under the ticker symbol "MTRO".

The Company's Shares have been issued under the Companies Act. The Shares are freely transferable and there are no restrictions on the transfer of the Shares in the United Kingdom.

All Shares rank *pari passu* in all respects, there being no conversion or exchange rights attaching to them, and all Shareholders have equal rights to participate in capital, dividend, and profit distributions by the Company, including to participate in any surplus in the event of the liquidation of the Company. On a show of hands at general meetings of the Company, every Shareholder who is present in person and every person holding a valid proxy shall have one vote and on a poll every Shareholder present in person or by proxy shall have one vote per Share.

The Shares do not carry any rights with respect to capital to participate in a distribution (including a winding-up) other than those that exist as a matter of law.

As at the Reference Date, the Company did not hold any Shares in treasury.

## 4 Information About the New Shares

### 4.1 Description and Type of Securities

Subject to Admission, pursuant to the Firm Placing, 500,000,000 New Shares will be issued at a price of 30 pence per New Share. This will result in the issued ordinary share capital of the Company increasing by approximately 289.56 per cent (assuming, that no Shares are issued pursuant to options exercised under the Share Schemes between the Reference Date and Admission becoming effective).

At the General Meeting, the Shareholder Resolutions are proposed: (i) to approve the terms (including as to the discount) of the Firm Placing as set out in this document, and to direct the Directors to exercise all powers to cause the Company to implement the Firm Placing; (ii) to authorise the Directors, pursuant to section 551 of the Companies Act, to allot New Shares and to grant rights to subscribe for or convert any security into New Shares up to a nominal amount of £500 pursuant to or in connection with the Firm Placing (iii) to grant the Board authority to allot the New Shares to be issued under the authority to allot requested under the resolution described in point (ii) above, which shall represent 289.56 per cent. of the Shares in issue as at the Reference Date, as if the pre-emption rights in section 561 of the Companies Act did not apply; and (iv) to approve the Rule 9 Waiver.

The New Shares will be allotted to all Firm Placees by a resolution of a committee of the Board and created in accordance with the laws of England, will have the same rights in all respects as the Existing Shares (including the right to receive all dividends or other distributions declared by the Company after the date of issue of the New Shares) and the ISIN for the New Shares will be the same as that of the Existing Shares, being GB00BMX3W479.

The New Shares will be fully paid ordinary shares with a nominal value of £0.000001 each. On Admission, the New Shares will be registered with an ISIN of GB00BMX3W479, and SEDOL of BMX3W47. It is expected that the New Shares will be traded on the main market for listed securities of the London Stock Exchange under the ticker symbol “MTRO”.

The New Shares will be issued under the Companies Act.

On Admission, the New Shares will be freely transferable and there will be no restrictions on the transfer of New Shares in the United Kingdom.

All New Shares will rank *pari passu* in all respects, there being no conversion or exchange rights attaching to them, and all Shareholders will have equal rights to participate in capital, dividend, and profit distributions by the Company, including to participate in any surplus in the event of the liquidation of the Company. On a show of hands at general meetings of the Company, every Shareholder who is present in person and every person holding a valid proxy shall have one vote and on a poll every Shareholder present in person or by proxy shall have one vote per New Share.

The New Shares will not carry any rights with respect to capital to participate in a distribution (including a winding-up) other than those that exist as a matter of law.

### 4.2 Form and Currency of the New Shares

The New Shares will be in registered form and will be capable of being held in certificated and uncertificated form. The registrar of the Company is Equiniti.

The New Shares are, and on Admission will be, denominated in pounds sterling.

Title to the certificated New Shares will be evidenced by entry in the register of members of the Company and title to uncertificated New Shares will be evidenced by entry in the operator register maintained by Equiniti (which will form part of the register of members of the Company).

No share certificates will be issued in respect of New Shares in uncertificated form. No temporary documents of title have been or will be issued in respect of the New Shares.

It is currently anticipated that the New Shares will be eligible to join CREST, the computerised, paperless system for settlement of sales and purchases of shares in the London securities market, with effect immediately upon Admission and the commencement of dealings on the London Stock Exchange.

**5 Dividends**

The Company has not declared or paid a dividend for the financial year ended 31 December 2022. The Company does not currently have a dividend policy and does not anticipate paying a dividend in the near future. Under the terms of the Articles of Association, if the Company pays a dividend and such dividend (or any part of it) is unclaimed by any Shareholder(s), the entitlement of such Shareholder(s) to receive the dividend will lapse after 12 years from the date on which it is declared or becomes due for payment.

**6 Articles of Association**

The Articles are available for inspection at the registered office of the Company and include, amongst others, provisions to the following effect:

**6.1 Objects**

The Company's objects are not restricted by its Articles. Accordingly, pursuant to section 31 of the Companies Act, the Company's objects are unrestricted.

**6.2 Shares**

**6.2.1 Share rights**

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

**6.2.2 Voting rights**

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

**6.2.3 Variation of rights**

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

**6.2.4 Transfer of Shares**

The Shares shall be freely transferable. Transfers of certificated shares must be effected in writing and signed by or on behalf of the transferor. The Directors may decline to register any transfer of a certificated Share, unless the conditions set out in

the Articles are complied with. Transfers of uncertificated shares may be effected by means of a relevant system (i.e., CREST) unless the CREST Regulations provide otherwise.

**6.2.5 Restrictions where notice not complied with**

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

**6.2.6 Conditions governing the manner in which annual general meetings and general meetings are called**

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

Notice of general meetings shall include all information required by the Companies Act 2006 and shall be given to all members entitled to receive such notices under the provisions of the Articles. The Board can specify in the notice of meeting a time by which a person must be entered on the Company's share register in order to have the right to attend or vote at the meeting. The time specified must not be more than 48 hours before the time fixed for the meeting.

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

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

**6.3 Directors**

**6.3.1 General powers**

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

**6.3.2 Number of Directors**

The Directors shall not be less than two or more than 15 in number save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of Directors.

**6.3.3 Share qualification**

The Directors are not required to hold any Shares of the Company by way of qualification.

**6.3.4 Directors' fees**

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

**6.3.5 Directors' retirement**

Each Director shall retire at the annual general meeting held in the third calendar year following the year in which they were elected or last re- elected by the Company, or such earlier annual general meeting as the Directors may resolve. Any Director who retires at an annual general meeting may offer themselves for re-appointment by the Shareholders. In accordance with the Corporate Governance Code, each Director will be subject to annual re-election by Shareholders.

**6.3.6 Removal of a Director by resolution of the Company**

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

A Director may resign their office by written notice.

**6.3.7 Proceedings of the Board**

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

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

**6.3.8 Directors' interests**

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

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

**6.3.9 Restrictions on voting**

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

**6.3.10 Confidential Information**

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

#### 6.3.11 Borrowing powers

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

#### 6.3.12 Directors' liabilities

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

### 6.4 Dividends

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

## 7 Interests and Dealings – General

### 7.1 Definitions

For the purposes of this paragraph 7:

"**acting in concert**" has the meaning given to it in the City Code;

"**connected person**" in relation to a director of Company includes: (a) such director's spouse or civil partner and children or step-children under the age of 18; (b) the trustee(s) of any trust for the benefit of such director and/or any person mentioned in (a); (c) any company in which such director and/or any person mentioned in (a) or (b) is entitled to exercise or control the exercise of one-third or more of the voting power, or which is accustomed to act in accordance with the directions of such director or any such person; and (d) any other person whose interests in shares are taken to be interests of such director pursuant to Part 22 of the Companies Act;

"**dealing**" or "**dealt**" includes the following:

(i) the acquisition or disposal of relevant securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to securities or of general control of securities;

(ii) the taking, granting, acquisition, disposal, entering into, closing out, termination, exercise (by either party) or variation of an option (including a traded option contract) in respect of any relevant securities;

(iii) subscribing or agreeing to subscribe for relevant securities;

(iv) the exercise or conversion, whether in respect of new or existing securities, of any relevant securities carrying conversion or subscription rights;

(v) the acquisition or, disposal of, entering into, closing out, exercise (by either party) of any rights under, or variation of, a derivative referenced, directly or indirectly, to relevant securities;

(vi) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities;

(vii) the redemption or purchase of, or taking or exercising an option over, any of its own relevant securities by Spaldy Investments or any member of the Concert Party; and

(viii) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which they have a short position;

"**Disclosure Period**" means the period starting on 9 November 2022 (being the date 12 months prior to the publication of this document) and ending on the Reference Date;

"**derivative**" includes any financial product whose value in whole or in part is determined directly or indirectly by reference to the price of an underlying security;

"**Financial Collateral Arrangement**" means an arrangement of the kind referred to in Note 3 on Rule 4.6 of the City Code;

"**relevant securities**" includes: shares and any other securities conferring voting rights; (2) equity share capital; (3) any securities convertible into or rights to subscribe for the securities; and (4) securities convertible into, rights to subscribe or, options (including traded options) in respect of and derivatives referenced to any of the foregoing;

"**short position**" means any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery; and

a person is treated as "**interested**" in securities if they have a long economic exposure, whether absolute or conditional, to changes in the price of those securities (and a person who only has a short position in securities is not treated as interested in those securities). In particular, a person is treated as "**interested**" in securities if:

(1) they own them;

(2) they have the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to them or has general control of them;

(3) by virtue of any agreement to purchase, option or derivative, they:

(a) have the right or option to acquire them or call for their delivery; or

(b) are under an obligation to take delivery of them,

whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or

(4) they are a party to any derivative:

(a) whose value is determined by reference to their price; and

(b) which results, or may result, in them having a long position in them.

**7.2 Interests and Dealings – General**

Save as disclosed in this document at Part IX and paragraphs 16 and 17 of this Part X, as at the close of business on the Reference Date,

(i) none of:

(a) the Directors or their connected persons;

(b) any person acting in concert with the Company;

(c) Spaldy Investments;

(d) Jaime Gilinski Bacal as sole director of Spaldy Investments; or

(e) any person acting in concert with Spaldy Investments,

had an interest in, a right to subscribe in respect of, or any short position in relation to the relevant securities of the Company;

(ii) none of the Company or the Directors had an interest in, a right to subscribe in respect of, or any short position in relation to relevant securities of Spaldy Investments;

(iii) none of the Company or any person acting in concert with the Company has borrowed or lent any relevant securities of the Company (including for these purposes any Financial Collateral Arrangements) during the Disclosure Period, save for any borrowed shares which have been either on-lent or sold;

(iv) none of Spaldy Investments or persons acting in concert with Spaldy Investments has borrowed or lent any relevant securities of the Company (including for these

purposes any Financial Collateral Arrangements) during the Disclosure Period, save for any borrowed shares which have been either on-lent or sold; and

(v) none of Spaldy Investments or persons acting in concert with Spaldy Investments has dealt with any relevant securities of the Company during the Disclosure Period.

**7.3 Persons acting in concert with the Company**

In addition to the Directors (together with their close relatives and related trusts) and members of the Group, RBC Europe Limited is, for the purposes of the City Code, acting in concert with the Company as it is the Company's corporate broker and Rule 3 Adviser.

## 8 Middle Market Quotations

Set out below are the closing middle-market quotations for the Shares, as derived from the Daily Official List of the London Stock Exchange, for the first dealing day of each of the six months preceding the date of this document and the Reference Date.

| Date | Share |
|---|---|
| | *(pence)* |
| 02 May 2023 | 97.40 |
| 01 June 2023 | 101.00 |
| 03 July 2023 | 120.00 |
| 01 August 2023 | 115.40 |
| 01 September 2023 | 102.80 |
| 02 October 2023 | 55.70 |
| 01 November 2023 | 41.70 |
| 03 November 2023 | 40.60 |

## 9 Equity Commitments Letters

The following Shareholders have committed to vote in favour of the Shareholder Resolutions at the General Meeting in respect of their entire beneficial holdings pursuant to the Equity Commitment Letters. Spaldy Investments is not an Independent Shareholder and will not be able to vote on the Rule 9 Waiver Resolution.

| Name of Shareholder | Number of Shares as at 27 October 2023 |
|---|---|
| Spaldy Investments | 15,723,914 |
| Spruce House Investment Management | 15,500,000 |
| Conifer Capital Management | 10,214,789 |
| Davis Selected Advisors | 8,136,346 |
| Kernow Asset Management | 5,494,596 |
| 683 Capital Partners | 2,692,068 |
| Mr Thomas N Tryforos | 1,404,390 |
| Sretaw | 400,000 |
| Grand Street Capital | 173,937 |
| Toscafund | 0 |
| Atlas Merchant Capital | 0 |

## 10 Other information

Save as disclosed in this document, no agreement, arrangement or understanding (including any compensation arrangement), exists between the Directors, recent directors, Shareholders or recent shareholders of the Company having any connection with or dependence upon the Firm Placing.

## 11 Arrangements

Save as disclosed in this document, there is no agreement, arrangement or understanding whereby the beneficial ownership of any of the Shares to be acquired by Company will be transferred to any other person.

## 12 Ratings information

On 12 October 2023, pending completion of the Transactions, Fitch has assigned the Company a long-term credit rating of B, and Metro Bank a long-term credit rating of B+, in each case with a RWE outlook. In addition, following the announcement of the Transactions, Fitch downgraded the Company's and Metro Bank's viability rating from b to c and downgraded the Existing Tier 2 Notes' credit rating from CCC+ to C.

As at the Reference Date, there have been no further changes to these ratings.

## 13 Bases and sources

The value of the fully diluted share capital of the Company is calculated on the basis of 172,676,547 Shares in issue on the Reference Date.

Unless otherwise stated all shares are derived from the Daily Official List; and all prices quoted for Shares are Closing Prices.

## 14 Mandatory Takeover Bids, Squeeze Out and Sell Out Rules

### 14.1 Mandatory Takeover Bids

The City Code applies to the Company. Under Rule 9 of the City Code any person who acquires an interest in shares which, taken together with shares in which that person or any person acting in concert with that person is interested, carries 30 per cent. or more of the voting rights of a company which is subject to the City Code is normally required to make an offer to all the remaining shareholders of that company to acquire their shares.

Similarly, when any person, together with persons acting in concert with that person, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of such a company, but does not hold shares carrying more than 50 per cent. of voting rights of the company, an offer will normally be required if any further interests in shares carrying voting rights are acquired by such person or any person acting in concert with that person.

An offer under Rule 9 of the City Code must be made in cash at the highest price paid by the person required to make the offer, or any person acting in concert with such person, for any interest in shares of the company during the 12 months prior to the announcement of the offer.

As a result of the Firm Placing, Spaldy Investments will hold shares carrying more than 50 per cent. of the Company's voting rights and may accordingly increase its aggregate interests in shares without incurring any obligation to make an offer under Rule 9 of the City Code, although individual members of the Concert Party will not be able to increase their percentage interests in shares through or between a threshold contained in Rule 9 of the City Code without Panel consent.

**Squeeze-Out Rules**

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which the offer relates (the "**Offer Shares**") and not less than 90 per cent. of the voting rights attached to the Offer Shares, within three months of the last day on which its offer can be accepted, it could acquire compulsorily the outstanding shares not assented to the offer. It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

### 14.2 Sell-Out Rules

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Shares, and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Shares to which the offer relates, any holder of Shares to which the offer related who had not accepted the offer could, by a written communication to the offeror, require it to acquire those Shares. The offeror is required to give any shareholder notice of their right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises their rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

### 14.3 Takeover Bids

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

### 14.4 Controller provisions of the FSMA

14.4.1 The controller provisions in the FSMA impose obligations on persons who are either proposing to become, or are already, controllers of a UK authorised firm (such as Metro Bank or any other UK authorised firm within the Group) to obtain FCA or PRA approval prior to acquiring or increasing control. A "controller", broadly, is any person who:

(i) holds 10 per cent. or more of the shares or voting power in the authorised firm or any parent undertaking of that authorised firm; and/or

(ii) is able to exercise significant influence over the management of the authorised firm or any parent undertaking by virtue of such person's shareholding or voting power.

This definition of "controller" is broad and refers to terms which themselves are subject to detailed definitions (including "voting power" and "parent undertaking").

14.4.2 Shareholders should also be aware that, for the purposes of calculating the level of holding they have in determining whether or not they will be a "controller" of the Company or any other UK authorised firm within the Group, their shareholding in the Company will be aggregated with any shares or voting power held by any person with whom they are deemed to be "acting in concert". Guidance issued by the previous three Level 3 Committees of European Financial Supervisors (the Committee of European Banking Supervisors, the Committee of European Insurance and Occupational Pensions Supervisors and the Committee of European Securities Regulators, which have now been replaced by EBA, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, respectively) in relation to the EU Acquisitions Directive provides that persons are "acting in concert" when each of them decides to exercise their rights linked to the shares they intend to acquire in accordance with an implicit or explicit agreement made between them. Certain holdings may be disregarded under detailed provisions contained in the FSMA.

## 15 Directors and Senior Managers

### 15.1 Directors

The Directors are listed below:

| Name | Position |
|---|---|
| Robert Sharpe | Chair |
| Daniel Frumkin | Chief Executive Officer |
| James Hopkinson | Chief Financial Officer |
| Anna (Monique) Melis | Senior Independent Director |
| Catherine Brown | Independent Non-Executive Director |
| Dorita Gilinski | Shareholder Appointed Non-Executive Director |
| Anne Grim | Independent Non-Executive Director |
| Ian Henderson | Independent Non-Executive Director |
| Paul Thandi | Independent Non-Executive Director |
| Michael Torpey | Independent Non-Executive Director |
| Nicholas Winsor | Independent Non-Executive Director |

The business address of each of the Directors is One Southampton Row, London WC1B 5HA, and each of the Director's business telephone number is 020 3402 8385 or, when dialling from outside the United Kingdom, +44 20 3402 8385.

Summary biographical details of each of the Directors are set out in the section titled "*Directors, Senior Managers and Advisers*" above. There is no family relationship between any of the Directors.

### 15.2 Senior Managers:

The Senior Managers, and their respective positions within the Company, are listed below:

| Name | Position |
|---|---|
| Tina Coates | Director, Corporate Affairs |
| Carol Frost | Chief People Officer |
| Faisal Hussain | Chief Information and Chief Transformation Officer |
| Aisling Kane | Chief Operations Officer |
| Richard Saulet | Managing Director, Consumer Finance |
| Dominic McGuinness | Compliance Director |
| Kirsten McLeod | Chief Risk Officer |
| David Thomasson | Managing Director, Banking Products & Digital |
| Ian Walters | Managing Director, Distribution |
| Kathy Newman | Chief Internal Auditor |

The business address of each of the Senior Managers is One Southampton Row, London WC1B 5HA, and each of the Senior Manager's business telephone number is 020 3402 8385 or, when dialling from outside the United Kingdom, +44 20 3402 8385.

Summary biographical details of each of the Senior Managers are set out in the section titled "*Directors and Advisers*". There is no family relationship between any of the Senior Managers.

## 16 Directors' and Senior Managers' Interests

### 16.1 Issued Share Capital

Set out below are the interests (all of which are beneficial) as at 27 October 2023 of the Directors and the Senior Managers and their respective closely associated persons (within the meaning of MAR) in the share capital of the Company at 27 October 2023 and as they are expected to be immediately following the Transactions (assuming: (i) participation by Daniel Frumkin and James Hopkinson in the Firm Placing; and (ii) assuming no options under the Employee Share Plans were exercised between the date of this document and Admission becoming effective).

| | **Interests in Shares at 27 October 2023** | | **Interests in Shares immediately following the Transaction** | |
|---|---|---|---|---|
| **Name** | *No.*[1] | *(%)*[2] | *No.* | *(%)*[2] |
| **Directors** | | | | |
| Robert Sharpe | 46,000 | 0.03 | 46,000 | 0.01 |
| Daniel Frumkin | 2,350,000 | 1.36 | 8,183,333 | 1.22 |
| James Hopkinson | 168,498 | 0.10 | 368,498 | 0.05 |
| Anna (Monique) Melis | 1,690 | 0.00 | 1,690 | 0.00 |
| Catherine Brown | 100 | 0.00 | 100 | 0.00 |
| Anne Grim | 22,500 | 0.01 | 22,500 | 0.00 |
| Ian Henderson | 15,000 | 0.01 | 15,000 | 0.00 |
| Michael Torpey | 20,000 | 0.01 | 20,000 | 0.00 |
| Paul Thandi | 30,000 | 0.02 | 30,000 | 0.00 |
| Nicholas Winsor | 150,000 | 0.09 | 150,000 | 0.02 |
| Dorita Gilinski | 0 | 0.00 | 0 | 0.00 |
| **Senior Managers** | | | | |
| Aisling Kane | 46,218 | 0.03 | 58,126 | 0.01 |
| Carol Frost | 0 | 0.00 | 0 | 0.00 |
| Kathy Newman | 0 | 0.00 | 0 | 0.00 |
| David Thomasson | 26,707 | 0.02 | 26,707 | 0.00 |
| Ian Walters | 6,144 | 0.00 | 7,107 | 0.00 |
| Tina Coates | 0 | 0.00 | 0 | 0.00 |
| Dominic McGuinness | 0 | 0.00 | 0 | 0.00 |
| Kirsten McLeod | 0 | 0.00 | 0 | 0.00 |
| Richard Saulet | 2,479 | 0.00 | 2,749 | 0.00 |
| Faisal Hussain | 6,262 | 0.00 | 8,062 | 0.00 |

Notes:

(1) Comprising Shares held legally or beneficially by the relevant Director or Senior Manager or their closely associated persons (within the meaning of MAR).

(2) Rounded to the nearest 0.01 per cent.

### 16.2 Director Participation in the Firm Placing

In connection with the Firm Placing, Daniel Frumkin and James Hopkinson have committed to subscribe for the New Shares at the Issue Price, conditional upon Admission. The following table sets out the number of New Shares which such Directors have agreed to subscribe:

| Name | Number of New Shares subscribed for |
|---|---|
| **Directors** | |
| Daniel Frumkin | 5,833,333 |
| James Hopkinson | 200,000 |

### 16.3 Awards over Company Shares

The following table sets out details of the options and awards over Shares held by the Directors and Senior Managers as at the Reference Date.

| Name | Number of Shares subject to awards(1)(2) |
|---|---|
| **Directors** | |
| Robert Sharpe | 0 |
| Daniel Frumkin | 3,961,436 |
| James Hopkinson | 533,684 |
| Anna (Monique) Melis | 0 |
| Catherine Brown | 0 |
| Anne Grim | 0 |
| Ian Henderson | 0 |
| Michael Torpey | 0 |
| Paul Thandi | 0 |
| Nicholas Winsor | 0 |
| Dorita Gilinski | 0 |
| **Senior Management** | |
| Aisling Kane | 1,214,984 |
| Carol Frost | 616,591 |
| Kathy Newman | 0 |
| David Thomasson | 520,678 |
| Ian Walters | 830,904 |
| Tina Coates | 355,818 |
| Dominic McGuinness | 62,282 |
| Kirsten McLeod | 177,192 |
| Richard Saulet | 55,536 |
| Faisal Hussain | 100,816 |

Notes:

(1) The awards include both vested and unvested awards, and the vesting of some awards is subject to meeting performance conditions.

(1) The Company froze the vesting of share options and awards for the Executive Directors and the Executive Committee for awards granted for the 2018 and 2019 performance years, pending further analysis and the ongoing external investigations into the RWA adjustment announced on 23 January 2019. The People and Remuneration Committee determined in January 2023 that awards for some colleagues not implicated in the regulators' conclusions no longer needed to be frozen. However, awards for one former executive director remain frozen for the time being pending the completion of other proceedings.

Save as set out above, no Director or Senior Manager has any interests in the share capital or any other securities of the Company or the Group.

**16.4** The Board may review, prior to the dates of vesting, the impact of the Transactions on the ability to meet any existing performance conditions under the Long Term Incentive Plan and consider adjustments.

**16.5** Save as disclosed herein, as at the date of this document, none of the Directors or the Senior Managers has at any time within the past five years:

16.5.1 save as disclosed in this section 16, been a director or partner of any companies or partnerships;

16.5.2 had any convictions in relation to fraudulent offences (whether spent or unspent);

16.5.3 been adjudged bankrupt or entered into any individual voluntary arrangements;

16.5.4 been a director of any company at the time of or within a 12-month period preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or with any class of creditors of such company;

16.5.5 been partner of any partnership at the time of or within a 12-month period preceding any compulsory liquidation, administration, or partnership voluntary arrangement of such partnership;

16.5.6 had their assets be the subject of any receivership;

16.5.7 been partner of any partnership at the time of or within a 12-month period preceding any assets thereof being the subject of a receivership;

16.5.8 been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

16.5.9 ever been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company.

**16.6** Save for their capacities as persons legally and beneficially interested in Shares and save as disclosed in paragraphs 16.7 and 16.8 below, there are:

16.6.1 no potential conflicts of interest between any duties to the Company of the Directors or the Senior Managers and their private interests and/or other duties; and

16.6.2 no arrangements or understandings with major Shareholders, members, suppliers or others, pursuant to which any Director or the Senior Managers was selected.

**16.7** Dorita Gilinski is a shareholder-nominated Non-Executive Director, nominated by her father Jaime Gilinski Bacal, a significant shareholder of the Company, through his Spaldy Investments vehicle.

**16.8** Set out below are the directorships and partnerships held by the Directors and Senior Managers (other than, where applicable, directorships held in subsidiaries of the Company) in the five years prior to the date of this document.

| Name | Current directorships/partnerships | Past directorships/partnerships |
|---|---|---|
| Robert Sharpe | Hampshire Trust Bank plc<br>Pollen Street PLC<br>Alba Bank Limited | Aspinall Financial Services Limited(1)<br>Bank of Ireland (UK) plc<br>Honeycomb Investment Trust plc<br>Al Rayan Bank plc |
| Daniel Frumkin | N/A | N/A |
| James Hopkinson | N/A | Clearbank Limited |
| Anna (Monique) Melis | Fifth Avenue Participations Sarl<br>Kiesoffice Sarl<br>Elchfield Sarl<br>KROLL Advisory Ltd<br>KROLL (Luxembourg) Management Company Sarl<br>The Bank of London<br>90 TBR Management Limited | Kinetic Partners Global Limited Liability Partnership |
| Catherine Brown | | |

| Name | Current directorships/partnerships | Past directorships/partnerships |
|---|---|---|
| | FNZ (UK) Ltd<br>FNZ TA Services Limited<br>FNZ AMI Ltd<br>FNZ Securities Ltd<br>QBE Underwriting Limited<br>QBE UK Limited | Blue Cross<br>Additive Flow Ltd<br>The Plastic Economy Ltd<br>Cancer Research UK<br>Be Pension Fund Trustees Limited<br>Libertas Consulting Ltd<br>Mind Springs Partnership Limited<br>PCV Nominees Limited<br>Apax Partners US Holdings Ltd<br>Apax Partners UK Ltd<br>Apax Partners Holdings Ltd<br>Apax Partners Worldwide Holdings Ltd<br>Apax Investment Management LLP<br>Apax PP Nominees Ltd |
| Anne Grim | Insight Investment Funds Management Limited<br>Insight Investment International Limited<br>Insight Investment Management (Global) Limited<br>Insight Investment Management Limited<br>CXpertin Ltd<br>Plus500 | Opportunity International United Kingdom<br>FIL Holdings (UK) Limited<br>Openwork Holdings Limited<br>Openwork Limited<br>London Women's Forum<br>Fidelity Holdings UK<br>Fidelity UK Pension Board |
| Ian Henderson | IAH (NED) Ltd<br>Chartered Banks Institute (Trustee)<br>GB Bank Limited | Kyckr UK Limited<br>Kyckr Ireland Limited |
| Michael Torpey | Studio Retail Group plc<br>FICS Group Holdings Limited<br>Frasers Group Financial Services Limited | BIAM Holdings Unlimited Company<br>Howth Yacht Club clg<br>Lenmul Limited<br>First Active Holdings UK Limited<br>First Active Commercial Limited<br>FirstActive.com Limited<br>Auburn Options Limited<br>Auburn 1 Limited<br>Ulster Investments Limited<br>Ulster Bank Limited<br>Ulster Bank Ireland Designated Activity Company |
| Paul Thandi | West Midlands Growth Company Limited<br>Bowel Cancer UK<br>True North Associates Ltd<br>British Allied Trades Federation<br>NEC Group Ltd<br>NEC Property (Number One) Ltd<br>Lhtca Bidco Limited<br>Lhtca Midco Limited<br>Nevada Topco Limited<br>Nevada Midco Limited<br>Nevada Bidco Limited<br>National Exhibition Centre Limited<br>The Student Energy Group Ltd | Multi Purpose Underscore Limited<br>Birmingham Chamber of Commerce and Industry<br>GL Events NEC Limited<br>Sports Show Limited<br>MPM Catering Limited<br>The National Exhibition Centre (Developments) PLC<br>Clarion Events Birmingham Limited<br>Security Media Limited<br>Property Media Limited<br>Construction Exhibitions Limited<br>CMPI (Summer Furniture Show) Limited |

| Name | Current directorships/partnerships | Past directorships/partnerships |
|---|---|---|
| | WMGC Enterprises Limited<br>Generate Topco Limited | 93 Sirdar Road Management Company Limited<br>The Association of Event Organisers Limited<br>National Exhibition Centre Limited<br>(The) Outserv Limited<br>Events Industry Alliance Ltd<br>Association of Event Venues Limited |
| Nicholas Winsor | Jersey Development Company<br>Schroder Oriental Income Limited<br>Y L Equity Pte Ltd<br>Autism Jersey<br>Bankers Without Boundaries<br>Connect Singapore Pte Ltd | British Chamber of Commerce Taipei<br>Delaney's (Kowloon) Ltd<br>Durrell Wildlife Conservation Trust Ltd<br>European Chamber of Commerce Taipei |
| Dorita Gilinski | JGB Financial Holding<br>Banco GNB Paraguay | N/A |
| Richard Saulet | N/A | N/A |
| Ian Walters | N/A | N/A |

## 17 Interests of Major Shareholders

Insofar as the Company had been notified under the Disclosure Guidance and Transparency Rules, the names of the persons who, directly or indirectly, have an interest in three per cent. or more of the Company's issued share capital, and their respective interests, as at 27 October 2023 are as follows:

| | Shares | |
|---|---|---|
| **Name** | **(No.)** | **(%)** |
| Spaldy Investments Limited | 15,723,914 | 9.11 |
| The Spruce House Partnership | 15,500,000 | 8.98 |
| Ruane, Cunniff and Goldfarb | 10,214,789 | 5.92 |
| Davis Selected Advisors | 8,136,346 | 4.71 |
| Kernow Asset Management Limited | 5,494,596 | 3.18 |

So far as the Company is aware, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government or any other natural or legal person, severally or jointly.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

So far as the Company is aware, immediately following the Firm Placing, the interests of those persons set out above with an interest in three per cent. or more of the Company's issued share capital (assuming: (i) full take-up by such persons of any New Shares allocated to such persons under the Firm Placing; and (ii) that no Shares are issued pursuant to options exercised under the Share Schemes between the date of this document and Admission becoming effective) will be as follows:

| | Shares | |
|---|---|---|
| **Name** | **(No.)** | **(%)** |
| Spaldy Investments Limited | 355,723,914 | 52.88 |
| The Spruce House Partnership | 58,833,333 | 8.75 |
| Ruane, Cunniff and Goldfarb | 38,548,122 | 5.73 |
| Davis Selected Advisors | 34,803,013 | 5.17 |
| Kernow Asset Management Limited | 21,327,929 | 3.17 |

## 18 Directors' Service Agreements, Letters of Appointment and remuneration

### 18.1 Service Agreements and Letters of Appointment

Save as mentioned herein, there are no service agreements between any Director and any member of the Group.

Key details of the contracts of employment and/or service contracts of each Director are set out below:

| Director | Date of appointment | Notice period |
|---|---|---|
| Daniel Frumkin | 1 January 2020 | 12 months |
| Robert Sharpe | 1 November 2020 | Three months |
| James Hopkinson | 5 September 2022 | 12 months |
| Catherine Brown | 1 October 2018 | Three months |
| Anna (Monique) Melis | 20 June 2017 | Three months |
| Paul Thandi | 1 January 2019 | Three months |
| Anne Grim | 20 April 2020 | Three months |
| Ian Henderson | 20 April 2020 | Three months |
| Michael Torpey | 1 September 2019 | Three months |
| Nicholas Winsor | 20 April 2020 | Three months |
| Dorita Gilinski | 26 September 2022 | Three months |

Any proposals for the early termination of the service contracts of Executive Directors are considered by the Nomination Committee taking into account contractual terms and the principles of mitigation.

The Non-Executive Directors have letters of appointment reflecting their responsibilities and commitments, pursuant to which they are currently appointed for a three-year term which may be renewed subject to their re-election by shareholders at annual general meetings.

None of the Directors' service contracts or letters of appointment has been entered into or amended during the period of six months prior to the date of this document except for Robert Sharpe, whose appointment letter was issued dated 30 October 2023 and is effective from 1 November 2023.

The letter of appointment of Robert Sharpe reflects that his Director's appointment may be terminated by either party, at the terminating party's discretion and without reason, upon 3 months' written notice to the other party. If Robert Sharpe's appointment is terminated in respect of either the Company or Metro Bank, the termination will be effected for both entities.

Robert Sharpe's appointment letter is contract for services and not contract of employment. Robert Sharpe is paid his agreed annual fee monthly in arrears (subject to the deduction of any applicable tax and National Insurance contributions). The fee is subject to an annual review. The Company and/or Metro Bank reimburses Robert Sharpe for all reasonable and properly documented expenses incurred by in performing his duties. On termination of a Director's appointment, Robert Sharpe shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred before that date, save as specified in clause 1.6 of his appointment letter (the "Company" in that clause meaning Metro Bank and the "Holding Company" meaning the Company).

*1.6 If you are not elected or re-elected by either the Company or the Holding Company's shareholders (as required) your appointment shall terminate automatically in respect of both the Company and the Holding Company, with immediate effect and with a payment in lieu of three months' notice. For the avoidance of doubt you will not be entitled to compensation for loss of office.*

## 18.2 Directors' and Senior Managers' Remuneration

*Directors*

The following tables set out the remuneration of the Directors for the year ended 31 December 2022.

| Executive Director[1] | Basic salary[2] | Taxable benefits[3] | Pension | Other[4] | Total fixed remuneration | Annual variable pay rewarded in retained shares[5] | Annual variable pay awarded in deferred shares[6] | Total variable remuneration[7] | Total remuneration |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | *(£)* | | | | |
| Daniel Frumkin | 762,200 | 1,039 | 60,975 | 947 | 825,161 | 360,800 | 90,200 | 451,000 | 1,276,161 |
| James Hopkinson[8] | 162,879 | 173 | 10,000 | 216 | 173,268 | 43,600 | 10,900 | 54,500 | 227,768 |

Notes:

(1) The information included in this table is reflected in the 2022 Annual Report and Accounts, which provides additional background information regarding the remuneration outcomes.

(2) Daniel Frumkin's and James Hopkinson's salaries as at the Reference Date were £769,600 and £500,000, respectively.

(3) Taxable benefits include private medical insurance.

(4) This is made up of non-taxable benefits provided to the Executive Directors and includes life assurance.

(5) Delivered in retained shares that vest immediately and are subject to a 12-month retention period.

(6) Delivered under the Deferred Variable Reward Plan as deferred shares, subject to continued service.

(7) No cash bonus was awarded for the 2022 performance year.

(8) James Hopkinson joined the Group on 5 September 2022.

| Director | Total fees (£) |
|---|---|
| **Chair** | |
| Robert Sharpe | 350,000 |
| **Non-Executive Directors** | |
| Catherine Brown | 96,875 |
| Dorita Gilinski[(1)] | — |
| Anne Grim | 68,125 |
| Ian Henderson | 94,375 |
| Anna (Monique) Melis | 103,125 |
| Paul Thandi | 73,125 |
| Michael Torpey[(2)] | 94,375 |
| Nicholas Winsor | 84,441 |

Notes:

(1) Dorita Gilinski joined the Group on 26 September 2022. Dorita has waived her entitlement to a fee.

(2) Michael Torpey was also reimbursed expenses of £4,677 in respect of his NED duties including travelling from overseas to attend Board and committee meetings. Although these expenses are necessary and reasonable, under HMRC rules these are deemed taxable in the UK. The Group therefore paid the tax on these expenses, which amounted to £3,455.

*Total Remuneration for the Directors and Senior Managers*

The Non-Executive Directors did not receive any bonus payments or benefits for the year ended 31 December 2022.

In the year ended 31 December 2022, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) by members of the Group to the Directors and the Senior Managers was approximately £3,900,983 and £6,061,744 respectively.

David Arden stepped down from the role of CFO on 15 February 2022. He continued to receive his normal salary and contractual benefits in accordance with his service contract and the Remuneration Policy (£405,000 in monthly instalments in-lieu of his 12-month notice period and £15,575.93 in lieu of accrued but untaken holiday). His termination agreement also included a total annual variable reward of £258,188 in deferred and retained share awards.

No Director received compensation for loss of office. However, David Arden, a former Executive Director, received payments in lieu of notice, in line with his contract of employment. The amount paid in 2022 was £303,750.

*Pension Entitlements*

In the year ended 31 December 2022, no amount was set aside or accrued by the Group to provide pension, retirement or similar benefits to the Directors and the Senior Managers.

Non-Executive Directors are not provided retirement benefits by the Group.

### 18.3 Overview of Remuneration Policy

On 18 May 2021, Metro Bank obtained approval from its shareholders for its Directors' Remuneration Policy. This replaced the previous remuneration policy approved at the 2020 AGM. As a newly incorporated company listed on the London Stock Exchange, the Company is required to obtain shareholder approval of its directors' remuneration policy under section 439A of the Companies Act at its first annual general meeting following Admission. However, until that time, it is the intention of the Company's Board that it will, when determining the remuneration of the Directors, take into account the directors' Remuneration Policy as last approved by its shareholders, and the Company's Board has adopted a new Directors' Remuneration Policy reflecting this approach.

The key components of the new Directors' Remuneration Policy for the Company are set out below.

**18.4 Components of Remuneration for Executive Directors**

*Base salary*

The purpose of the base salary is to attract and retain the right calibre of employees, with the required level of skills, experience, and cultural alignment to the Company.

Base salaries for executive directors are reviewed annually by the People and Remuneration Committee. Increases for executive directors (in percentage terms) will normally be in line with increases awarded to other employees, but there may be instances where a higher amount is agreed at the discretion of the People and Remuneration Committee, for example, where there has been a clear increase in the scope of role or change in responsibilities. When determining base salary levels, the People and Remuneration Committee considers factors including, but not limited to, company performance, individual performance, and the external market.

There are no performance measures related specifically to base salary.

*Pension*

Executive directors are automatically enrolled into the Group Personal Pension Plan upon joining the Company. The current maximum employer contribution (including cash in lieu) for executive directors is 8 per cent. of base salary. Executive directors will have their pension contributions set at a level aligned with or less than that available to the majority of the wider workforce.

The Company does not offer any discretionary pension benefits.

There are no performance measures related specifically to pension contributions.

*Benefits*

The Company offers additional core benefits to support the health, wellbeing, and security of executive directors, including life assurance of four times their salaries, private medical insurance coverage for the executive director, their partner and children, and health screening checks for executive directors.

Additional benefits may be provided in certain circumstances, including, but not limited to, relocation. Executive directors also have access to additional opt-in benefits which are available to the wider employee population, including participation in the ShareBuy Plan (as set out in further detail in paragraph 19 below).

There are no performance measures specifically related to benefits.

*Annual bonus*

The maximum annual bonus opportunity for executive directors is 100 per cent. of base salary for a financial year (50 per cent. of maximum for target performance). The amount of annual bonus is determined based on the achievement of performance metrics (balanced corporate scorecard and individual performance targets). The People and Remuneration Committee uses the scorecard to assess the overall performance of the business and may, on a discretionary basis, make a holistic assessment of the outcome. It has discretion to reduce the annual bonus if it is not supported by underlying financial performance.

The choice of performance measures is reviewed by the People and Remuneration Committee each financial year, with threshold, target and stretch levels of performance set for each measure. By way of background, the performance measures for the 2023 performance year comprise: (i) financial measures (underlying earnings, deposit growth, capital including MREL) weighted 60 per cent.; (ii) risk and regulatory measures weighted 20 per cent. (where the People and Remuneration Committee will refer to a discretionary assessment of risk management over the performance period based on qualitative and quantitative inputs against a number of risk factors); (iii) customer measures (net promoter scores, expressions of dissatisfaction) weighted 10 per cent.; and (iv) colleague (engagement, diversity) and community (financial literacy programme) measures weighted 10 per cent.

At least 60 per cent. of the total variable remuneration (comprising annual bonus and Long Term Incentive Plan grants) will be deferred with a vesting period of at least three years, increasing to up to seven years where required by regulation. As part of this deferral, the annual bonus is deferred in shares under the Deferred Variable Reward Plan. In addition, a holding period of at least 12 months

applies to any shares vesting under the Deferred Variable Reward Plan or the Long Term Incentive Plan.

Malus and clawback will apply to awards granted under the Deferred Variable Reward Plan (as set out in further detail in paragraph 19 below).

*Long-term incentive*

Executive directors will be considered for awards under the Long Term Incentive Plan (in the form of shares delivered as nil-cost options or conditional awards). The maximum Long Term Incentive Plan opportunity is 100 per cent. of salary for a financial year. Generally, awards will have a three year performance period with performance assessed on the third anniversary of grant. The combined vesting and holding periods will, on average, in aggregate be at least five years, and longer where required by regulation.

Vesting is measured against the following performance targets: (i) Relative Total Shareholder Return (weighted 40 per cent.); (ii) Return on Tangible Equity (weighted 40 per cent.); and (iii) risk and regulatory factors (weighted 20 per cent.), where the People and Remuneration Committee will refer to a discretionary assessment of risk management over the performance period based on qualitative and quantitative inputs against a number of risk factors. However, different performance measures and weightings may be set for future awards. Threshold vesting performance is set at 25 per cent. of maximum opportunity. Awards can take the form of cash-based awards of equivalent value to share-based awards. Share-based awards may also be settled in cash.

Malus and clawback will apply to awards granted under the Long Term Incentive Plan (as set out in further detail in paragraph 19 below).

*In-employment shareholding requirements*

Executive directors are subject to a minimum shareholding requirement of 200 per cent. of salary. They are expected to retain all shares vesting under the Deferred Variable Reward Plan and Long Term Incentive Plan until such time as the shareholding requirement has been met. Build up is expected over a period of five years commencing from the later of 18 May 2021 or the date the executive director joins the Company.

*Recruitment policy*

The remuneration package for a new executive director will be aligned with the Remuneration Policy.

*Termination policy*

On termination, executive directors will generally be contractually entitled to base salary, pension benefits and contractual benefits for the notice period. If the Company exercises its discretion to make a payment in lieu of notice, such payment would consist of base salary only and be paid out in instalments, subject to reduction if the executive director finds alternative employment. Benefits will continue until the last day of contractual employment and accrued but unused holiday will be paid out.

The default position is that no variable remuneration (annual bonus and Long Term Incentive Plan payments) is payable after termination. Unvested deferred share awards under the Deferred Variable Reward Plan and unvested Long Term Incentive Plan awards will also lapse on termination. In certain good leaver situations, awards under the Deferred Variable Reward Plan and the Long Term Incentive Plan will continue on the same terms and usually vest at the usual vesting dates. For Long Term Incentive Plan awards, the extent of vesting will still depend on the People and Remuneration Committee's discretions as to performance testing and whether time pro-rating (i.e., a reduction to reflect the portion of the performance period worked) is applied.

Executive directors will be required to maintain the lower of the in-employment shareholding requirement of 200 per cent. of salary or the level achieved at the cessation date for a period of two years post-cessation.

The notice period for termination of employment is 12 months.

### 18.5 Components of Remuneration for Non-Executive Directors

*Fees*

All Non-Executive Directors receive a basic annual fee for their board duties. Additional fees are paid for added responsibilities such as chair and membership of committees, or acting as the Senior Independent Director or Designated Non-Executive Director for Workforce Engagement. Fees for the role of chair of committees are paid in addition to fees for membership. The Non-Executive Chair also receives an annual fee. All fees are paid in cash.

Basic and additional fees are reviewed annually. The review considers external market information for comparable financial services groups and companies. The maximum aggregate annual fees that can be paid to the Non-Executive Chair and Non-Executive Directors are capped at £3 million.

*Benefits*

Non-Executive Directors do not participate in any pension, bonus or long-term incentive arrangements or receive any other benefits. The Company will meet the reasonable expenses incurred in the normal course of business (as well as any tax arising on those expenses).

*Fees on recruitment*

The fee package for a new Non-Executive Director will be set in a manner consistent with the basic fee structure put in place for existing Non-Executive Directors, with reference to external market data, internal relativity among other executive and Non-Executive Directors, and the requirements of the role.

*Letters of appointment*

The appointment letters for the Non-Executive Directors provide for a notice period of three months, during which time they are entitled to be paid their normal fees or payment in lieu without liability for compensation. There is no provision for any other early termination compensation and no payment for loss of office.

## 19 Share Schemes

The common terms of the Long Term Incentive Plan and the Deferred Variable Reward Plan are set out below, followed by a summary of the principal terms specific to each of the Share Schemes.

### 19.1 Common Terms of the Long Term Incentive Plan and the Deferred Variable Reward Plan

*Eligibility and operation*

Employees of the Group (including executive directors) are eligible to participate in the Long Term Incentive Plan and the Deferred Variable Reward Plan. The People and Remuneration Committee and/or the Board has discretion to administer both plans.

*Limits on Shares*

In any 10-year period, not more than 10 per cent. of the issued ordinary share capital of the Company may be issued or be issuable under the Long Term Incentive Plan, the Deferred Variable Reward Plan and all other share plans adopted by the Company, and from 4 March 2016, any other employee share plan adopted by Metro Bank.

*Malus and clawback*

In certain circumstances, the People and Remuneration Committee and/or the Board may at any time prior to the later of the: (i) third anniversary of the date on which an award will vest; and (ii) seventh anniversary of the date on which an award was granted (or within ten years of the grant date where an investigation is under way for senior manager function roles), operate malus and clawback provisions on awards or options under the Deferred Long Term Incentive Plan and the Deferred Variable Reward Plan. Such circumstances are:

(i) a material misstatement of the Company's financial results or an error in assessing any applicable performance conditions and that misstatement resulted, either directly or indirectly, in that award vesting to a greater degree (or being granted over more shares) than would otherwise have been the case;

(ii) the Board forms the view that the participant has participated in or is responsible for conduct that has resulted in significant losses to the Company;

(iii) the Board is of the view that a participant had failed to meet the appropriate standards of fitness and propriety;

(iv) there is reasonable evidence of misconduct or serious error by the participant;

(v) the Company and/or the business unit for which the participant works suffers a material downturn in its business performance;

(vi) the Company and/or the business unit for which the participant works suffers a significant failure of risk management;

(vii) the Company has suffered an instance of corporate failure which has resulted in:

- the conditions for use of the stabilisation powers under the special resolution regime in accordance with Parts 1 to 3 of the Banking Act 2009 being satisfied;
- the Company entering into a compromise or arrangement in accordance with sections 1 to 7 of the Insolvency Act 1986 for the purpose of repayment or restructuring of the Company's debts; or
- the passing of a resolution or making of an order which is sanctioned by the Court for the appointment of a liquidator or administrator.

(viii) the Company or any Group Member suffers substantial reputational damage to its business from an event to which the participant made a material contribution as a result of their action or conduct or failure to act;

(ix) the participant is subject to a regulatory censure in respect of a material failure in control; and

(x) the level of the award is not, in the opinion of the Board, sustainable when assessing the overall financial viability of the Company or any Group Member.

*Settlement*

Awards may be satisfied with newly issued Shares, treasury Shares, "market purchase" Shares or cash.

*General*

Awards are not transferable (except to personal representatives on death) and are not pensionable. Any Shares issued following the vesting of awards will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

### 19.2 Long Term Incentive Plan

The Long Term Incentive Plan was adopted by the Board of the Company on 8 March 2023. The Long Term Incentive Plan is a discretionary share plan, under which the People and Remuneration Committee may grant long-term incentive awards to incentivise and retain eligible employees. The key terms of the Long Term Incentive Plan are summarised below.

*Form of awards*

Share-based awards under the Long Term Incentive Plan can take the form of conditional share awards or nil-cost options. These are generally subject to performance-related conditions. In exceptional circumstances such as recruitment or retention, awards may be subject only to time and continued service conditions ("**Restricted Share Awards**"). Awards can also take the form of cash-based conditional awards.

An award granted as an option may carry a right to dividend equivalents in cash or in shares.

*Timing of awards*

Awards will normally only be granted within 42 days of: (i) the Long Term Incentive Plan being approved; (ii) the announcement of the Company's results for any period; or (iii) at

other times in exceptional circumstances. No awards can be granted more than 10 years after the adoption of the plan.

*Plan Limits*

Awards may not be made if that would cause the number of plan shares issued or committed to be issued within the 10 years preceding the award under the Long Term Incentive Plan or any other employee share plans adopted by the Company, together with the Legacy Long Term Incentive Plan, the Legacy Long Term Reward Plan and, from 18 May 2021 only, the Legacy Deferred Variable Reward Plan, to exceed 5 per cent of the Company's issued ordinary share capital at that time.

*Individual limits*

During a financial year, the aggregate market value of Shares over which awards or options may be granted to an employee must not exceed 100 per cent. of their salary.

*Vesting of awards*

Awards under the Long Term Incentive Plan will typically vest on the third anniversary of grant, and in the case of performance share awards, subject to the achievement of the performance conditions. The People and Remuneration Committee will determine the extent to which the awards will vest, taking into account the extent that the performance conditions have been satisfied and any other factors the Board considers relevant.

Shares will be issued or transferred to the participant shortly after vesting or exercise in the case of an option. A participant can exercise an option from the time it vests up to 10 years after grant. Un-exercised options will lapse thereafter.

*Holding period*

For executive directors and any other individual as determined by the People and Remuneration Committee, there is a holding period for Shares received on awards vesting or on the exercise of options. The holding period is 12 months from the date of vesting or such later date as required under applicable laws, or any other date as determined by the People and Remuneration Committee.

*Leaving employment*

Unvested awards will normally lapse immediately upon a participant ceasing to be employed by or holding office with the Group.

In certain good leaver circumstances, such as: (i) death; (ii) ill-health, injury or disability; (iii) redundancy: (iv) retirement; (v) the participant's employer ceasing to be a member of the group; and (vi) any other circumstances determined by the People and Remuneration Committee, unvested awards will not lapse and shall vest on the normal vesting dates or an earlier vesting date determined by the People and Remuneration Committee. The extent of vesting will depend on the satisfaction of the performance conditions and time pro-rating (i.e., a reduction to reflect the portion of the performance period worked), as determined by the People and Remuneration Committee. In the case of unvested awards which are options, the options will vest and be exercisable for 12 months from departure. Unexercised options will lapse thereafter.

*Corporate events – takeovers and schemes of arrangement*

In the event of a change of control, scheme of arrangement under section 899 of the Companies Act in connection with a change of control, or winding-up of the Company, all awards shall vest on the date of the event. The extent of vesting will depend on the satisfaction of the performance conditions and time pro-rating, as determined by the People and Remuneration Committee, unless it decides that the application of time pro-rating would be inappropriate. In the case of options that so vest, these will be exercisable for one month. Unexercised options will lapse thereafter.

Alternatively, awards will not vest but be automatically surrendered in consideration for the grant of new awards over the shares in an acquiring company if the People and Remuneration Committee considers these replacement awards to be equivalent. The Long Term Incentive Plan rules would apply *mutatis mutandis* to the replacement awards.

*Demergers and similar events*

In the event of a demerger, special dividend or other similar event, the People and Remuneration Committee may in its discretion, decide to notify a participant that, subject to any earlier lapse due to cessation of employment or holding of office, their awards will vest to the extent not already vested and/or their options may be exercised on certain terms during a set period preceding the event (after which the options will lapse). Alternatively, the People and Remuneration Committee may adjust the number and/or exercise price of Shares subject to an option or award, and/or the number of and price of Shares to be transferred or allotted after an award vests or an option has been exercised.

*Adjustments – variation of share capital*

The number, description, and/or exercise price or vesting price of the Shares subject to an option or award may be adjusted by the Board in the event of a variation in the share capital of the Company, including (but not limited to) a capitalisation issue, rights issue and demerger or other distribution.

*Amendments*

The People and Remuneration Committee can amend the Long Term Incentive Plan in any way. However, shareholder approval will be required to amend provisions relating to eligibility, individual and plan limits, the rights attaching to awards and shares, the adjustment of awards on variation in the Company's share capital and the amendment powers. Participant approval will be required to make alterations to the disadvantage of participants. The People and Remuneration Committee or Board may, without shareholder approval, establish further plans or sub-plans for overseas territories, governed similar rules.

**19.3 Deferred Variable Reward Plan**

The Deferred Variable Reward Plan is a discretionary share plan that was adopted by the Board of the Company on 8 March 2023 to enable employees to defer some or all of their annual variable reward into awards or options over Shares. The key terms of the Deferred Variable Reward Plan are summarised below.

*Invitation to participate*

The Board may select any person to participate in the Deferred Variable Reward Plan. Participants will receive some or all of their annual variable reward in the form of an award under the Deferred Variable Reward Plan.

*Eligibility – CSOP Options*

To be granted a tax-advantaged CSOP Option under the Deferred Variable Reward Plan, employees of the Group must not: (i) be excluded from participation because of paragraphs 9 to 14 of Schedule 4 ITEPA (material interest provisions); or (ii) be a Director who is required to work less than 25 hours a week (excluding meal breaks) for the Company.

*Form of awards*

Awards can take the form of:

(i) rights to receive free Shares on vesting;

(ii) an option (either non-tax advantaged or tax advantaged CSOP Options) to acquire Shares at a price determined by the Board at grant (which may be nil); or

(iii) restricted shares which are issued or transferred to the participant on grant on the basis they must be given back to the extent that the award lapses before vesting.

Shortly after the amount of the participant's annual variable award is determined, the People and Remuneration Committee will decide the amount or percentage that will be received as an award granted under the Deferred Variable Reward Plan.

If the award is a share award, it will be over a number of Shares such that the award will have a market value equal to the portion of the bonus to be received as an award. If the award is an option, it will be over a number of Shares such that the option will have a fair value which, in the opinion of the Board, would be broadly equivalent to the portion of the

bonus to be received as an award. The balance of the annual variable award will be paid in cash or other forms determined by the Board.

*Timing of awards*

Awards will normally only be granted within 42 days of: (i) the Company's annual general meeting; (ii) the day after the announcement of the Company's results for any period; (iii) any other times in exceptional circumstances, as determined by the Board; (iv) any day on which changes to the legislation or regulations affecting share plans are announced, effected or made; or (v) the lifting of dealing restrictions which prevented the granting of awards during the periods specified in (i) to (iv). No awards can be granted more than 10 years after approval by the Company's Shareholders.

*Plan Limits*

Awards may not be made if that would cause the number of plan shares issued or committed to be issued within the 10 years preceding the award under the Deferred Variable Reward Plan or any other employee share plans adopted by the Company, together with the Legacy Long Term Incentive Plan, the Legacy Long Term Reward Plan and, from 18 May 2021 only, the Legacy Deferred Variable Reward Plan, to exceed 5 per cent of the Company's issued ordinary share capital at that time.

*Individual Limits – CSOP Options*

The aggregate market value of Shares which an option holder would acquire on exercising the CSOP Options under the Deferred Variable Reward Plan or any other Schedule 4 ITEPA CSOP scheme established by the Company or any associated company must not exceed the amount permitted under paragraph 6(1) of Schedule 4 ITEPA (which since 6 April 2023 is £60,000).

*Vesting of awards*

Awards will normally vest, to the extent any performance condition is met, on the vesting dates set by the Board on award. Performance conditions are set by the Board at grant.

Shares will be issued or transferred to the participant within thirty days after the vesting of awards or exercise in the case of options. An option will become exercisable to the extent it vests and will lapse, at the latest, 10 years after grant.

*Holding period*

Shares received on vesting of awards or exercise of the options will be subject to an additional holding period thereafter.

*Leaving employment*

An award will normally lapse if the participant leaves employment during the deferral period. In good leaver circumstances such as: (i) death; (ii) ill-health, injury, or disability; (iii) redundancy: (iv) retirement; (v) the participant's employer ceasing to be a subsidiary of the Company; and (vi) any other circumstances determined by the People and Remuneration Committee, awards will not lapse and will continue under the plan. However, the Board may in its discretion, decide that an award will lapse wholly or in part and/or impose further conditions on the vesting or exercise of the awards.

*Takeovers and reorganisations*

Awards will generally vest early on a takeover, merger, or other corporate reorganisation. Where options vest upon the occurrence of such events, the options will be exercisable for one month or any other period set by the Board. Unexercised options will lapse thereafter.

For CSOP Options that vest early in these circumstances and as a result the Shares subject to the options no longer meet the requirements of Part 4 of Schedule 4 ITEPA, the Board may decide that these options will remain exercisable for 20 days after the relevant event. Unexercised options will lapse thereafter (unless exchanged).

Alternatively to vesting, participants may be allowed or required to exchange their awards for awards over shares in the acquiring company.

CSOP Options may only be exchanged in this manner if the acquiring company:

(i) obtains control of the Company as a result of making a general offer to acquire the whole issued ordinary share capital of the Company (other than what it or its subsidiary or holding company already owns) made on a condition such that, if satisfied the acquiring company will have control of the Company;

(ii) obtains control of the Company under a compromise or arrangement sanctioned by the court under section 899 of the Companies Act; or

(iii) becomes bound or entitled to acquire Shares pursuant to a "squeeze-out" under sections 979 to 982 of the Companies Act.

CSOP Options must be exchanged in accordance with paragraph 26 of Schedule 4 ITEPA within the period referred to in paragraph 26 of Schedule 4 ITEPA, with the agreement of the acquiring company and the agreement of the CSOP Option holders. CSOP Options not so exchanged, and not subject to early vesting (see above) will continue on their current terms. The replacement award must also be in respect of shares which satisfy the conditions of paragraph 27 of Schedule 4 ITEPA, in a body corporate falling within paragraph 16(b) or (c) of Schedule 4 ITEPA.

*Adjustments – variation of share capital*

The number, description, and/or exercise price or vesting price of the Shares subject to an option or award, may be adjusted by the Board in the event of a variation in the share capital of the Company, including (but not limited to) a capitalisation issue, rights issue and demerger or other distribution.

For CSOP Options, adjustments may not be made in the above circumstances unless:

(i) the total market value of the Shares acquired by the exercise of the CSOP adjustments immediately following the adjustment, is substantially the same as the total market value of such Shares immediately before the adjustment; and

(ii) the aggregate price payable on the exercise of the CSOP Options immediately following the adjustment is substantially similar to the total price that would have been payable on exercise of the CSOP Options immediately before the adjustment.

*Amendments*

The Board can amend the Deferred Variable Reward Plan in any way. However, shareholder approval will be required to amend provisions relating to eligibility, individual and plan limits, the rights attaching to awards and shares, the adjustment of awards on variation in the Company's share capital and the amendment powers. The Board may, without shareholder approval, establish further plans based on the Deferred Variable Reward Plan.

### 19.4 ShareBuy Plan

The ShareBuy Plan was adopted by the Board of the Company on 8 March 2023 and is a tax-approved Share Incentive Plan ("**SIP**") operated in accordance with Schedule 2 ITEPA. The key terms are summarised below.

*Eligibility and invitation to participate*

Employees of the Group (including executive directors) are eligible to participate in the ShareBuy Plan.

Where the Board decides to operate the ShareBuy Plan, it must invite all employees of the Group who: (i) are UK resident taxpayers (within the meaning of paragraph 8(2) of Schedule 2 ITEPA); and (ii) have been employed by a qualifying company throughout the qualifying period of service, which must be no more than (A) 18 months ending with the start of contributions (where there is no accumulation period), and (B) six months ending with the start of the accumulation period, where there is an accumulation period. Employees who are non-UK resident taxpayers may also be invited if they meet the qualifying period of service requirements as set out in (ii). The Board must not invite any employee who is participating in another SIP established by the Company or a connected company.

In accordance with paragraph 9 of Schedule 2 ITEPA, every employee who is invited to participate in the ShareBuy Plan must be invited to participate on the same terms.

Upon invitation to participate, employees must submit the completed application form by the specified deadline in order to participate. The application form must satisfy the requirements of Part 6 of Schedule 2 ITEPA and will include the notice required under paragraph 48 of Schedule 2 ITEPA.

*SIP employee benefit trust*

The shares subject to the ShareBuy Plan awards are held on behalf of participants in an employee benefit trust (the "**SIP Trust**") operated by Equiniti (the "**SIP Trustees**").

*Form and grant of awards*

Awards can take the form of partnership share awards, where participants are allocated Shares or any other shares in the Company as long as they meet the requirements of Part 4 of Schedule 2 ITEPA (ordinary shares that are fully paid up and are not redeemable), as well as any security which forms part of any new holding on a Company Reconstruction (the "**Partnership Shares**"). The allocated shares are acquired by the SIP Trust and held on behalf of the participants in the SIP Trust.

Contributions are deducted from a participant's salary for the purpose of acquiring the Partnership Shares awarded and the Board will determine the maximum level of contributions. This should not exceed: (i) the lower of 10 per cent. of the participant's salary for that tax year or £1,800 in any tax year; or (ii) any other percentage or amount set out in paragraph 46 of Schedule 2 ITEPA from time to time. The Board may also set a minimum level of contributions, which must not be more than £10. Contributions will be transferred to and held by the SIP Trust.

*Plan Limits*

A Share must not be issued under the Plan if the number of Shares would exceed 10 per cent of the ordinary share capital of the Company in issue, when added to the number of Shares which have been issued, or committed to be issued to satisfy options or awards under the ShareBuy Plan, together with any other employee share plan operated by the Company in the previous 10 years; and from 4 March 2016, any other employee share plan adopted by Metro Bank.

*Timing of awards*

Partnership Share awards may be granted at any time within the 10-year period following the ShareBuy Plan's approval.

The perpetuity period relating to the ShareBuy Plan is 125 years. The SIP Trustees may not award shares more than 121 years after the date of the ShareBuy Plan rules.

*Performance conditions*

Awards under the ShareBuy Plan are not subject to performance conditions.

*Limits*

The Board may set a limit on the number of shares which may be acquired as Partnership Shares.

*Settlement*

Awards may be satisfied with "market purchase" Shares, newly issued Shares or treasury Shares.

*Leaving employment*

If a participant ceases to be employed (whether voluntarily or involuntarily) with the Group, the Partnership Shares will be transferred by the SIP Trustees to the participant and cease to be subject to the ShareBuy Plan.

If this departure of the employee is within three years of the shares being allocated to them, they will be liable to pay income tax on the market value of the shares upon withdrawal of

the shares from the SIP Trust and the plan. If the employee leaves the Group within three to five years of the shares being allocated to them, income tax will be payable on the lower of: (i) the amount of contributions used to buy the shares; and (ii) the market value of the shares when they are taken out of the plan. If the employee leaves the Group five years after the shares were allocated to them, no income tax or national insurance contributions will be payable.

Where the employee leaves the Group for any of the following good leaver reasons: (i) injury or disability; (ii) redundancy; (iii) a transfer to which the Transfer of Undertakings (Protection of Employment) Regulations 2006 (S.I. 2006/246) applies; (iv) if relevant employment is employment by an associated company, by reason of a change of control or other circumstances ending that company's status as an associated company; (v) retirement; or (vi) death, there will be no income tax or national insurance contributions payable on the withdrawal of shares from the SIP Trust. In these circumstances, the timing of the employee's departure in relation to the date on which the shares were allocated would be irrelevant.

*Corporate events – Company Reconstruction*

In the event of a Company Reconstruction as defined under paragraph 86 of Schedule 2 ITEPA (i.e., where an offer for the Company results in a new holding being equated with the original Shares for capital gains tax purposes), a participant may direct the SIP Trustees on the appropriate action to take in relation to any right relating to the plan shares to receive other shares, securities or rights in relation to the Company Reconstruction. The SIP Trustees may not take any action without such direction.

Where the Company Reconstruction is a rights issue and the SIP Trustees exercise rights under that in respect of a participant's shares, any shares, securities or rights allotted as a result will be treated as if they were identical to the Partnership Shares subject to the ShareBuy Plan.

Pursuant to paragraph 87 of Schedule 2 ITEPA, following a Company Reconstruction, the SIP Trustees will hold the new shares as subject to the ShareBuy Plan, as if they were the original Shares.

*Amendments*

The Board and the SIP Trustees may amend the ShareBuy Plan by deed at any time. However, no amendment that would prevent the ShareBuy Plan from meeting the requirements of Schedule 2 ITEPA may be made. Where amendments have been made, an annual return relating to the ShareBuy Plan must be submitted to HMRC, including a declaration that the ShareBuy Plan continues to comply with Schedule 2 ITEPA.

**19.5 Legacy Share Schemes**

Metro Bank operated a number of employee share plans referred to herein as the Legacy Share Schemes. No further grants may be made under the Legacy Share Schemes. No further grants may be made under the Legacy Share Schemes. However, outstanding awards and options under the Legacy Share Schemes subsist and relate to Company Shares. The Legacy Share Schemes consist of: (i) the Legacy Long Term Incentive Plan; (ii) the Legacy Deferred Variable Reward Plan; (iii) the Legacy ShareBuy Plan; and (iv) the Legacy Long Term Reward Plan. Each of the Legacy Share Schemes that has an equivalent Company level share plan described above are on substantially the same terms as that equivalent plan, save that:

(i) unlike the Long Term Incentive Plan, the good leaver circumstances under the Legacy Long Term Incentive Plan does not include retirement and redundancy; and

(ii) the Legacy ShareBuy Plan does not provide the flexibility available under the ShareBuy Plan to use new issue or treasury shares, should the Company decide to do so. In addition, Shares held subject to the Legacy ShareBuy Plan will remain in the Legacy SIP Trust.

The Legacy Long Term Reward Plan does not have an equivalent Company share plan. This plan was operated prior to Metro Bank's initial public offering in 2016 and was on substantially the same terms as the Legacy Deferred Variable Reward Plan, which replaced it on the initial public offering. All options under the Legacy Long Term Reward Plan have

vested. There are 1,723,614 options that remain unexercised, which must be exercised within 10 years of grant.

**19.6 Employee Trust Benefits**.

The Company currently operates an employee benefit trust to facilitate the operation of the Share Schemes.

## 20 Subsidiaries and Corporate Structure

The Company is the holding company of Metro Bank and its consolidated subsidiaries. A list of the direct and indirect subsidiaries of the Company is set out at page 233 of the 2022 Annual Report and Accounts, which is incorporated by reference into this document.

Since publication of the 2022 Annual Report and Accounts, two subsidiaries of Metro Bank, Retail Money Market Ltd and Vehicle Credit Limited, have been dissolved.

## 21 Pension Schemes

The Company operates and makes contributions for its colleagues to a defined contribution pension scheme (or equivalent pension arrangements). The Company makes employer contributions to the group personal pension plan of generally between 6 per cent. and 10 per cent. of basic salary.

The total pension payments in the year ended 31 December 2022 amounted to £14.0 million for the defined contribution pension plan and certain colleagues' individual personal pension arrangements.

The assets of the group personal pension plan arrangements are held separately from those of the Company in independently administered funds.

In the year ended 31 December 2022, £1.9 million was set aside or accrued by the Group to provide pension, retirement or similar benefits to the Directors and the Senior Managers.

## 22 Independent Auditor

The independent auditor of the Group from December 2010 is PricewaterhouseCoopers LLP, chartered accountants, whose address is at 7 More London Riverside, London SE1 2RT, United Kingdom.

The financial statements of Metro Bank as at and for each of the financial years ended 31 December 2020, 31 December 2021 and 31 December 2022 incorporated by reference in this document have been audited by PricewaterhouseCoopers LLP independent auditors, as stated in their reports appearing therein.

With respect to the unaudited financial information of the Metro Bank Holdings plc for the six-month period ended 30 June 2023, incorporated by reference in this document, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 31 July 2023 incorporated by reference herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

## 23 Material Contracts

The following contract(s) (not being contract(s) entered into the ordinary course of business) have been entered into by the Company or the Group: (i) within the two years immediately preceding the date of this document which are, or may be, material to the Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Group at the date of this document. The Company has not traded since its incorporation and so has not entered into any other material contracts.

**23.1 Sponsor and Placing Agent Agreement**

The Company and RBC have entered into the Sponsor and Placing Agent Agreement, pursuant to which RBC acted as placing agent for the Company in relation to the Firm Placing of 500,000,000 New Shares at the Offer Price of 30 pence per New Share.

Pursuant to the terms of the Sponsor and Placing Agent Agreement, the Company has also appointed RBC as its sole sponsor and its London Stock Exchange representative in connection with its application for Admission and the related party transactions in connection with the Firm Placing on the terms set out in the Agreement.

The Company has given certain customary representations and warranties to RBC as to the accuracy of the information contained in this document and other related documents, and in relation to other matters relating to the Group and its business. In addition, the Company has given customary indemnities to RBC and certain persons connected with it. The Company has also provided certain customary undertakings to RBC for the period following Admission, including an undertaking (subject to certain exceptions) not to, *inter alia*, offer, issue or grant any rights over any Ordinary Shares or related securities for a period ending 180 days from the date of the Admission.

RBC may terminate the Sponsor and Placing Agent Agreement in its entirety in certain circumstances prior to Admission, including where there has been a breach of warranty. Following Admission, the Sponsor and Placing Agent Agreement will not be subject to any right of termination (including in respect of statutory withdrawal rights).

### 23.2 Equity Commitment Letters

Pursuant to an equity commitment letter dated 8 October 2023, Spaldy Investments has committed to (i) subscribe for £102 million of New Shares in the Firm Placing and (ii) vote in favour of the Shareholder Resolutions (other than the Rule 9 Waiver Resolution, as Spaldy Investments is not an Independent Shareholder) at the General Meeting.

Pursuant to equity commitment letters dated on or around 8 October 2023, certain existing shareholders and new investors committed to (i) subscribe in aggregate for £48 million of New Shares in the Firm Placing and (ii) vote in favour of the Shareholder Resolutions at the General Meeting.

Under the terms of the Equity Commitment Letters, the obligations of investors to participate in the Firm Placing are subject to the Support Agreement not having been terminated and certain other customary conditions including, amongst others, the passing of the Shareholder Resolutions at the General Meeting and Admission of the New Shares.

### 23.3 Support Agreement

On 8 October 2023, the Company, Metro Bank and certain holders of Existing MREL Notes and Existing Tier 2 Notes (the "**Consenting Noteholders**") entered into a support agreement (the "**Support Agreement**"), setting out the terms of support by the Consenting Noteholders for the Transactions. On 11 October 2023, the Company announced that following further support received, it had achieved support of more than 75 per cent. by nominal (par) value of each of the holders of the Existing MREL Notes and the Existing Tier 2 Notes acceding to the Support Agreement.

Pursuant to the terms of the Support Agreement (amongst other things):

i. the Consenting Noteholders agreed to vote (or procure that a vote is cast on their behalf) in favour of any matter requiring approval under the documents relating to the Existing MREL Notes and the Existing Tier 2 Notes in order to implement the Transactions;

ii. the Company, Metro Bank and the Consenting Noteholders undertook to:

    1. promptly take all actions necessary or desirable to support, facilitate, implement, consummate or otherwise give effect to all or any part of the Transactions;

    2. negotiate in good faith and use reasonable endeavours to agree on the relevant documents in order to implement and consummate the Transactions as soon as reasonably practicable; and

    3. engage with applicable regulatory authorities to obtain in a timely manner any required respective consents, approvals, and co-operation in connection with the Transactions; and

iii. the Company, Metro Bank and the Consenting Noteholders undertook not to take, encourage, assist or support (or procure that any other person takes, encourages, assists or supports) any action which would, or would reasonably be expected to, breach or be inconsistent with the Support Agreement or the term sheet for the Transactions.

The Support Agreement may be terminated upon the occurrence of one or more of the following events:

i. automatically on the Long-Stop Date;

ii. automatically on the occurrence of certain specified insolvency proceedings in relation to the Company and Metro Bank;

iii. the mutual written agreement of the Company, Metro Bank and the Majority Consenting Creditors (as defined below);

iv. by either the Company or Metro Bank or by the Majority Consenting Creditors by written notice following the termination of, or the occurrence of a material breach of (i) any of the agreements to subscribe for the new equity in the Company as set out in the Company's announcement on 8 October 2023; or (ii) any of the Debt Commitment Letters;

v. by Consenting Noteholders holding in aggregate at least (i) 50 per cent. of the principal amount outstanding of Existing MREL Notes; and (ii) 50 per cent. of the principal amount of Existing Tier 2 Notes, held by all Consenting Noteholders at that time (the "**Majority Consenting Creditors**") or the Company or Metro Bank if the PRA makes or gives effect to any material adverse change in the regulatory capital requirements applicable to the Group (by reference to its own circumstances) from such requirements applicable as at the date of the Support Agreement, for any reason (including but not limited to a change in markets, market conditions, or economic circumstances), provided that such material adverse change results or would result in the capital position of Metro Bank being inadequate to comply with its minimum regulatory requirements following the implementation of the Transactions;

vi. by the Majority Consenting Creditors if an offer is made for the shares in the Company pursuant to the UK Takeover Code, and such offer (a) is unconditional; (b) is recommended by the Company and accepted by the requisite majority of shareholders of the Company; (c) would provide for a par recovery for either or both of the holders of Existing MREL Notes and/or Existing Tier 2 Notes; (d) and has or will receive the required regulatory approvals;

vii. by either the Company or Metro Bank or by the Majority Consenting Creditors upon the occurrence of a material breach by any of the parties to the Support Agreement of any of their respective obligations, representations, warranties, covenants or commitments set forth in the Support Agreement, and to the extent any such breach is remediable, that it is not cured within ten (10) Business Days after receipt of notice (i) from the Majority Consenting Creditors, in the case of a breach by either Metro Bank or the Company; or (ii) from Metro Bank or the Company, in the case of a material breach by a Consenting Noteholder; in each case, that would (or could reasonably be expected to) prevent the implementation of the Transactions prior to the Long-Stop Date, except where the breach is waived with the written consent of the Majority Consenting Creditors, Metro Bank and the Company; or

viii. by either the Company or Metro Bank or by the Majority Consenting Creditors if any court of competent jurisdiction or other competent governmental or regulatory authority issues an order making illegal or otherwise restricting, preventing or prohibiting the Transactions or any material part thereof in a manner that cannot reasonably be remedied by the Company or Metro Bank or the Majority Consenting Creditors.

The Company has proposed to amend the Support Agreement such that the rights of Consenting Noteholders to terminate the Support Agreement pursuant to the events of termination listed at (iii) to (viii) above will be disapplied from (and including) the date of

the General Meeting to the date of completion of the Transactions (the "**Settlement Period**"), provided completion of the Transactions occurs within 10 business days of the General Meeting. The disapplication of these termination rights is intended to provide certainty to all parties to the Transactions that the Support Agreement will remain in full force and effect during the Settlement Period. During the Settlement Period, it is intended that the conditions required to successfully implement the Transactions will be satisfied other than any conditions relating to Admission. The Support Agreement will terminate on completion of the Transactions. This amendment is proposed to be effective if agreed by the Majority Consenting Creditors, and the Company expects that it will receive such agreement.

No notice of termination has been received by or delivered by the Company or Metro Bank and the Support Agreement remains in full force and effect.

**23.4 Debt Commitment Letters**

Pursuant to debt commitment letters dated on or around 8 October 2023 (the "**Debt Commitment Letters**"), certain existing noteholders committed to subscribe for £175 million in aggregate principal amount of Cash New MREL Notes at par to be issued for subscription in cash.

Under the terms of the Debt Commitment Letters, the obligations of investors to subscribe for the Cash New MREL Notes are subject to the Firm Placing, the issuance of the New Tier 2 Notes and the issuance of the Non-Cash New MREL Notes being successfully implemented.

**23.5 Written resolution in respect of the Existing Tier 2 Notes**

On 7 November 2023, Metro Bank circulated a notice of written resolution to the holders of the Existing Tier 2 Notes requesting such holders to consent to modifications to the terms and conditions of the Existing Tier 2 Notes such that the maturity date of the Existing Tier 2 Notes will be brought forward to the date of Admission and the redemption of the Existing Tier 2 Notes will be effected by way of delivery, to, or to the account of, the holders thereof, of £600 in principal amount of New Tier 2 Notes to be issued by the Company for each £1,000 in principal amount of Existing Tier 2 Notes held by each holder plus any accrued and unpaid interest in respect of such Existing Tier 2 Notes. The Existing Tier 2 Notes is fully written off by way of effective exchange into £150 million New Tier 2 Notes, resulting in an increase to the Group's CET1 capital of £100 million. The modifications to the terms and conditions of the Existing Tier 2 Notes described in this paragraph will only be effective upon the passing of the written resolution, satisfaction of the eligibility condition, the implementation of the written resolution and satisfaction of the effectiveness conditions.

**23.6 Written resolution in respect of the Existing MREL Notes**

On 7 November 2023, the Company circulated a notice of written resolution to the holders of its Existing MREL Notes requesting such holders to consent to modifications to the terms and conditions of the Existing MREL Notes such that the maturity date of the Existing MREL Notes will be brought forward to the date of Admission and the redemption of the Existing MREL Notes will be effected by way of delivery, to the holders thereof, of £1,000 in principal amount of Non-Cash New MREL Notes to be issued by the Company for each £1,000 in principal amount of Existing MREL Notes held by each holder plus any accrued and unpaid interest in respect of such Existing MREL Notes. The modifications to the terms and conditions of the Existing MREL Notes described in this paragraph will only be effective upon the passing of the written resolution, satisfaction of the eligibility condition, the implementation of the written resolution and satisfaction of the effectiveness conditions.

**23.7 Relationship Agreement**

On the date of this document, the Company, Spaldy Investments and Jaime Gilinski Bacal have entered into the Relationship Agreement, which will come into force on Admission. The principal purpose of the Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of the Controlling Shareholder Group and its members' respective associates. The Relationship Agreement will stay in effect until the earlier of the date on which the Controlling Shareholder Group and their respective associates cease to directly or indirectly own in aggregate at least 10 per cent. of the issued share

capital of the Company, the date on which the Shares cease to be listed on the premium listing segment of the Official List and the date on which the Shares cease to trade on the London Stock Exchange. The Relationship Agreement is intended to ensure that, following Admission, the Company will continue to meet its obligations under the Listing Rules.

The Relationship Agreement includes provisions to ensure that the Group is able to do business independently of the members of the Controlling Shareholder Group and its members' respective associates. The Relationship Agreement contains undertakings from each of the members of the Controlling Shareholder Group that:

- transactions and arrangements between it and/or any of its associates and member of the Group will be conducted at arm's length and on normal commercial terms;
- neither it nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and
- that neither it nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Under the Relationship Agreement, each of the members of the Controlling Shareholder Group have agreed that they shall not, and shall procure that their respective associates shall not, take any action that would, or which would be reasonably likely to have the effect of preventing any member of the Group from carrying on its business independently of the members of the Controlling Shareholder Group, or any of their respective associates, and for the benefit of its shareholders as a whole.

In addition, under the Relationship Agreement, Spaldy Investments and Jaime Gilinski Bacal:

- has each agreed that it will not exercise any of its voting or other rights and powers to procure any amendment to the Articles which would be inconsistent with, undermine or breach any provision of the Relationship Agreement;
- has each agreed that it will abstain from voting, and shall procure that any representative of it on the Board abstains from voting, on any resolution to approve a related party transaction involving it, or its associates (or the related party);
- will (together) have the right to appoint three Non-Executive Directors in total to the Board at any time following Admission, provided that the Controlling Shareholders hold, in aggregate, at least 30 per cent. of the issued share capital of the Company;
- will (together) have the right to appoint two Non-Executive Directors to the Board at any time following Admission, provided that the Controlling Shareholders hold, in aggregate, at least 15 per cent., but less than 30 per cent., of the issued share capital of the Company; and
- will (together) have the right to appoint one Non-Executive Director to the Board at any time following Admission, provided that the Controlling Shareholders hold, in aggregate, at least 10 per cent., but less than 15 per cent., of the issued share capital of the Company.

The Board believes that the terms of the Relationship Agreement will enable the Company to carry on its business independently of the members of the Controlling Shareholder Group and their respective associates and ensure that all transactions and relationships between the Company and its controlling shareholders are, and will be, at arm's length and on a normal commercial basis.

## 24 Regulatory Disclosures

Below is a summary of the information disclosed in accordance with the Company's obligations under UK MAR over the last 12 months which is relevant as at the date of this document.

### 24.1 Trading Update

On 1 August 2023, the Company released its trading update as at and for the six months ended 30 June 2023.

On 7 November 2023, the Company released its trading update as at and for the nine months ended 30 September 2023.

**24.2 Issue of Bonus Shares**

On 6 June 2023, the Company confirmed the issue of fully paid 'Bonus Shares' to the shareholders of the Company in proportion to the number of shares held in Metro Bank.

**24.3 Reduction of Capital**

On 8 June 2023, the Company announced that following the sanction by the High Court of Justice in England and Wales (the "**Court**"), the reduction of capital by way of cancellation of the 'Bonus Shares' and 'Special Subscriber Shares' (the "**Reduction of Capital**"), the order of the Court confirming the Reduction of Capital and, a statement of capital and, a statement of capital approved by the Court, were registered by the Registrar of Companies, and accordingly the reduction of capital had become effective.

**25 Employees**

As at the Reference Date, the Company had no employees and the Group employed 4,443 people with 4,310.9 full-time equivalents. The average number of full-time equivalent employees employed by the Group for the three years ended 31 December 2020, 2021 and 2022 was 3,850, 4,184 and 4,040, respectively. As at 30 June 2023, the Group employed 4,378 people with 4,266 full-time equivalents.

**26 Related Party Transactions**

**26.1** Save as disclosed in this paragraph 26, the Company has not entered into any related party transactions.

**26.2** Daniel Frumkin and James Hopkinson have committed to participate in the Firm Placing on the same terms as the other investors in the Firm Placing for an aggregate amount of £1.81 million (comprising £1.75 million from Daniel Frumkin and £0.06 million from James Hopkinson). By virtue of them being Directors in the Company, each of Daniel Frumkin and James Hopkinson is a related party of the Company for the purposes of the Listing Rules.

**26.3** Due to the size of his participation in the Firm Placing, the subscription to the New Shares by James Hopkinson qualifies as a small transaction for the purposes of Listing Rule 11.1.6R(1).

**26.4** Due to the size of his participation in the Firm Placing, the subscription to the New Shares by Daniel Frumkin constitutes a smaller related party transaction for the purposes of Listing Rule 11.1.10R.

**26.5** In accordance with the Listing Rules, the Company has received a written confirmation from its sponsor, RBC, that the terms of Daniel Frumkin's participation in the Firm Placing are fair and reasonable as far as the shareholders of the Company are concerned. RBC's confirmation was given to the Company prior to Daniel Frumkin committing to participate in the Firm Placing, in accordance with the Listing Rules.

**26.6** As at the Reference Date, there are no contracts or arrangements subsisting at the date of this document in which a Director is materially interested and which is significant in relation to the business of the Group.

**26.7** Other than as disclosed in the Financial Statements, there were no related party transactions entered into by members of the Group during the years ended 31 December 2020, 2021, 2022 and during the period between 1 January 2022 and the Reference Date.

**27 Litigation and Arbitration Proceedings**

**27.1** Save as disclosed in this paragraph 27 there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the previous 12 months which may have, or have had in the recent past, significant effects on the Company's or the Group's financial position or profitability.

**27.2 FCA Financial Crimes Systems and Controls Enquiry**

The FCA is currently undertaking enquiries regarding the Group's financial crime systems and controls. The Group continues to engage and co-operate fully with the FCA in relation to these matters, and the FCA's enquiries remain ongoing. The outcome and timing of these matters is inherently uncertain and based on the facts currently known, it is not possible to predict the outcome or reliably estimate any financial impact. As such, as at the Reference Date no provision has been made within the financial statements.

**27.3 PRA and FCA Investigations**

On 26 February 2019, Metro Bank received notification that the PRA and FCA intended to independently investigate the circumstances and events that led to the adjustment to Metro Bank's RWAs announced in the amount of approximately £900 million.

On 22 December 2021, the PRA concluded its investigation and imposed a financial penalty of £5,376,000 for breaching Fundamental Rules 2 and 6 of the PRA Rulebook prior to 23 January 2019. On 12 December 2022, the FCA published a final notice imposing a financial penalty of £10,002,300 for a breach of Listing Rule 1.3.3R in respect of information concerning its RWAs contained in an announcement issued on 24 October 2018. These penalties have been paid. In the time since the matters that were the basis of the regulatory investigations took place, the Group has made significant improvements to its disclosure procedures, addressed and remediated the issues which led to the RWA adjustment and strengthened its broader risk management and governance. Please also see "*Risk Factors—Risks relating to the operation of the Group's business—Claims, investigations and litigation could adversely affect the Group's brand, reputation and earnings*".

**27.4 Arkeyo**

Arkeyo LLC ("**Arkeyo**"), a software company based in the United States, filed a civil suit against Metro Bank in June 2017 in the United States District Court for the Eastern District of Pennsylvania alleging, among other matters, that Metro Bank misappropriated certain of Arkeyo's trade secret technology relating to money counting machines (i.e., Metro Bank's Magic Money Machines). Arkeyo has sought damages in respect of a number of claims and attempted to serve the US proceedings on Metro Bank in the United Kingdom. This claim was decided in favour of Metro Bank on jurisdictional grounds. However, Arkeyo has filed a new claim with a stated value of over £24 million. The proceedings have been stayed until December 2023, pending a further hearing on security for costs. The matter does not appear to have merit (based on advice from the Group's external legal advisors) and the Group is vigorously defending this claim. Accordingly, no provision has been made in the Group's accounts.

**27.5 Asertis**

On 17 January 2023, Metro Bank received a letter before claim from Asertis Limited ("**Asertis**"), a litigation funding company based in the United Kingdom. In the letter before claim Asertis alleges, among other matters, that Metro Bank breached its Quincecare duty (which requires a bank to refuse to comply with a payment instruction, when the bank is on notice that the instruction may be part of a fraud on the customer, unless and until the bank's inquiries satisfy it that the instruction is validly authorised by the customer). In its letter before claim Asertis seeks damages of approximately £12.8 million and interest of approximately £4.5 million. Metro Bank and Asertis agreed a 3-month standstill period (initially ending on 27 April 2023 and extended to the end of July) during which Asertis agreed not to initiate proceedings in respect of the letter before claim. As at the Reference Date, Asertis has not served a claim form against Metro Bank in relation to this matter. The matter is at preliminary stages, does not appear to have merit (based on initial advice from the Group's external legal advisers) and the Group intend to defend any claim vigorously. Accordingly, no provision has been made in the Group's accounts.

## 28 Working Capital

In the opinion of the Company, the working capital available to the Group is not sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.

On 5 July 2023, the countercyclical buffer increased by 1 per cent., leading to an increase in the Combined Buffer Requirement (which comprises the countercyclical buffer of 2 per cent. of RWAs and the capital conservation buffer which is 2.5 per cent. of RWAs) applicable to the Group. As a result, the Group no longer has sufficient CET1 resources to meet its Combined Buffer Requirement in full, and the Group is therefore subject to the MDA restrictions (which are formulaic restrictions to certain payments including dividend payments and variable remuneration). Consequently, without the net proceeds of the Transactions, the Group will continue to have insufficient CET1 resources to meet its Combined Buffer Requirement in full, and will therefore remain subject to the MDA restrictions.

The Company is unable to take into account the net proceeds of the Transactions in the working capital statement set out above as the net proceeds of the Transactions are conditional upon, among other things: (i) the passing and implementation of the written resolutions in respect of the Existing Tier 2 Notes and the Existing MREL Notes circulated by the Company and Metro Bank on 7 November 2023; and (ii) the Shareholder Resolutions having been passed at the General Meeting.

However, the Company is of the opinion that, after taking into account the net proceeds of the Transactions, that the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.

The Company has taken significant steps to mitigate the risk of the conditions not being satisfied, including the entry into of the Support Agreement, which sets out the terms of support by the Consenting Noteholders for the Transactions, including their commitment to vote in favour of the necessary written resolutions circulated by the Company and Metro Bank to the holders of the Existing MREL Notes and the Existing Tier 2 Notes on 7 November 2023. On 11 October 2023, the Company announced that following further support received, it had achieved support of more than 75 per cent. by nominal (par) value of each of the holders of the Existing MREL Notes and the Existing Tier 2 Notes acceding to the Support Agreement, being the threshold necessary to approve the written resolutions referred to above.

The Company has also secured commitments from the following Shareholders to vote in favour of the Shareholder Resolutions at the General Meeting in respect of their entire beneficial holdings pursuant to the Equity Commitment Letters. Spaldy Investments is not an Independent Shareholder and will not be able to vote on the Rule 9 Waiver Resolution.

| Name of Shareholder | Number of Shares as at 27 October 2023 |
|---|---:|
| Spaldy Investments | 15,723,914 |
| Spruce House Investment Management | 15,500,000 |
| Conifer Capital Management | 10,214,789 |
| Davis Selected Advisors | 8,136,346 |
| Sretaw | 400,000 |
| Toscafund | 0 |
| Kernow Asset Management | 5,494,596 |
| 683 Capital Partners | 2,692,068 |
| Atlas Merchant Capital | 0 |
| Mr Thomas N Tryforos | 1,404,390 |
| Grand Street Capital | 173,937 |

### 28.1 *Timing and shortfall*

The Board believes that the Transactions underpin the financial stability of the Group. From a regulatory capital standpoint, the Transactions will allow the Company (on a consolidated basis) and Metro Bank (on a solo basis) to meet its minimum regulatory capital requirements, MREL requirement and the Combined Buffer Requirements in full. Therefore, the MDA restrictions will cease to apply.

The net proceeds of the Transactions are comprised of: (i) the net proceeds from the Firm Placing, which will be approximately £144 million (net of fees, costs and expenses of approximately £6 million (including VAT)); (ii) the net proceeds from the issuance of the Cash New MREL Notes, which will be approximately £168 million (net of fees, costs and expenses of approximately £7 million (including VAT); and (iii) the net impact from the restructure of the Tier 2 Notes and Non-Cash New MREL Notes, which will be approximately £61 million. For further details on the effect of the Transactions on the Group, see Part VII "*Unaudited Pro Forma Financial Information*" of this document.

If the Transactions do not successfully complete, which will be the case if the conditions to the Transactions are not satisfied, the Group could face a number of adverse consequences, including being placed into resolution, which are described further in paragraph 28.3, below. The Company expects that failure to complete the Transactions would have an immediate material adverse effect on the Group's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements, as well as its ability to refinance its debts, and as a consequence, would increase the risk of resolution.

**28.2** *Action Plan*

In order to address the working capital shortfall identified in the working capital statement above, the Company announced on 8 October 2023 that it had agreed to undertake the Transactions. For further information on the Transactions, please refer to paragraph 2 of Part I of this document. The Transactions are inter-conditional and are each subject to various conditions.

In the event that the Transactions do not complete, the Company would seek to enter into one or more replacement transactions of a size and composition similar to the Transactions. There can be no assurance that the Company would be able to implement any mitigating actions in the time available, or that any such mitigating actions would be successful. Shareholders would be at risk of losing all or a substantial amount of their investment in such circumstances. Accordingly, the Board believes that the successful completion of the Transactions, which is predicated on the passing of the Shareholder Resolutions, is in the best interests of Shareholders as a whole.

**28.3** *Implications*

If the Transactions do not successfully complete, which will be the case if the conditions are not satisfied, the Group could face a number of adverse consequences, including being placed into resolution.

The Company expects that failure to complete the Transactions would have an immediate material adverse effect on the Group's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements, as well as its ability to refinance its debts, and as a consequence, would increase the risk of resolution.

In particular, the Company and Metro Bank would continue to have insufficient Tier 1 capital and, if the Company was unable to refinance its Existing MREL Notes (which, given that the issuance of the New Tier 2 Notes and the Non-Cash New MREL Notes are inter-conditional with the other elements of the Transactions, would be the case if any of the Transactions fail to complete), it would have insufficient MREL resources to meet its MREL requirement. The Company believes that if the Transactions are not successfully implemented:

- there would be limited, if any, investor demand for further debt capital issuances by the Company, and accordingly it would not be possible to refinance, and as a result to repay, the Existing MREL Notes when they cease to qualify as MREL in October 2024 and/or when they mature in October 2025; and
- liquidity risks (such as high deposit withdrawal rates) may materialise immediately in response to an announcement by the Company of the failure to implement the Transactions, which could accelerate the need for pre-resolution or resolution action as discussed below.

A description of the regulatory regime and the powers available to the PRA and the Bank of England is set out in Part III "*Supervision and Regulation – UK Regulation – Recovery and*

*resolution – Banking Act 2009 and BRRD*". The Company cannot predict the regulatory response, or that of the equity and debt markets and holders of its securities or the disposition of other counterparties, including depositors, to a related capital or liquidity stress. However, the Company believes that the most likely outcomes of a failure to implement the Transactions include recovery options and early intervention measures, but more likely: (i) the exercise of PoNV powers; and / or (ii) resolution (through the use of one or more stabilisation powers, which may be in conjunction with the use of the PoNV powers, together with a sale of the Group to a third party). Whilst the Company believes that these are the most likely consequences of this scenario occurring, there can be no assurance as to the likely reaction of the PRA or the Bank of England or its timing, albeit action is expected to be swift.

***Initial actions***

If the Shareholder Resolutions are not passed or the Transactions are not successfully completed, the Company would expect to hold urgent discussions with the PRA and the Bank of England. It is impossible to predict the outcome of such discussions or the extent to which the regulatory authorities would impose institution-specific requirements on the Company or Metro Bank, as they are afforded a wide range of discretionary powers both under the prudential regulatory regime and FSMA ("business-as-usual" supervisory powers) and early intervention measures under the SRR (for further detail on the latter, see Part III "*Supervision and Regulation—Recovery and resolution—Banking Act 2009 and BRRD"*).

The Company believes that such circumstances would require regulatory actions other than business-as-usual supervisory powers. In the first instance, actions such as allowing Metro Bank to access the Bank of England's sterling monetary framework liquidity facilities would be taken, and taking early intervention measures such as requiring the Group to take specified actions (which may include (i) implementing more recovery actions under its recovery plan such as selling assets or further reducing loan offers; and/or (ii) making changes to the Board) would be contemplated, although the Company expects these actions would be insufficient in such circumstances. Instead, the Company expects that the PRA and the Bank of England would determine that one or both of the Company or Metro Bank has reached the PoNV and/ or has met the resolution conditions (see below).

**Possible PRA and Bank of England Responses**

The following disclosure sets out the possible regulatory responses of the PRA and Bank of England to a failure of the Transactions in respect of the Company and/or Metro Bank, based on the regulatory powers and options available to them under the UK recovery and resolution regime and the Banking Act in particular.

***Use of the PoNV Powers***

If the PRA and the Bank of England are satisfied that one or both of the Company or Metro Bank has reached the PoNV, which is a determination by reference to specific cases in the Banking Act, the Bank of England must (unless it places the Company and/or Metro Bank into resolution) make use of its PoNV powers to apply mandatory write-down or conversion to the own funds instruments of the Company and Metro Bank (as applicable), including the Shares and the Existing Tier 2 Notes and relevant internal liabilities issued by Metro Bank to the Company. PoNV powers could be used in conjunction with resolution powers, as further described below.

The PoNV powers involve writing down own funds instruments (and relevant internal liabilities) when Case 2 of Section 6A of the Banking Act applies or converting such instruments into equity capital as a crisis prevention measure. Unlike bail-in (as to which see below), the PoNV powers neither constitute a resolution tool, nor do they extend to the write-down or conversion of liabilities other than regulatory capital (and relevant internal liabilities e.g., internal MREL). It is possible that PoNV powers are exercised simultaneously in relation to both the Company (in respect of the Shares) and Metro Bank or at one of these two levels.

The PoNV powers can be applied either in conjunction with resolution powers (if the conditions for their use are met) or separately if the Company or Metro Bank would no

longer be viable in the absence of a write down or conversion but should be restored to long term viability by the relevant write-down or conversion. The Banking Act provides that CET1 (i.e., the Shares) shall absorb losses first and the Bank of England has confirmed that the statutory hierarchy of the relevant instruments of the entity will be respected in resolution (as was the case with the use of PoNV powers in relation to AT1 and T2 instruments in a recent resolution). Accordingly, the Shares will be cancelled, transferred, or diluted first, with the Existing Tier 2 Notes written down or converted as required to meet the special resolution objectives, followed by internal MREL if necessary. PoNV powers cannot be used on the Company's Existing MREL Notes.

There are certain potential compensation provisions in the Banking Act in respect of the use of PoNV powers, but the "no creditor worse off" safeguard (as set out below) would not apply in relation to an application of the PoNV powers to own funds instruments and internal MREL in circumstances where resolution powers are not also exercised.

***Entry into formal resolution***

If, as the Company expected, early intervention measures and pre-resolution measures (such as the exercise of PoNV powers) are not, or are determined by the Bank of England and the PRA not to be, sufficient to stabilise the Company, placing the Company into formal resolution would be required (either in conjunction with the exercise of PoNV powers or as an alternative). The use of PoNV powers could be considered insufficient to stabilise the Group for a number of reasons including because a write-down of the Existing MREL Notes is required to be able to exercise the preferred stabilisation option (which is expected to be a sale of the Company or Metro Bank to a third party).

Whilst the Group's resolution strategy is a single point of entry bail-in strategy (i.e. it contemplates the use of a stabilisation option at the level of the Company), it is possible that both the Company and Metro Bank are placed into formal resolution at the same time, as discussed below. The Company and/or Metro Bank may only be placed into resolution if:

- the PRA has determined that the Company or Metro Bank (as applicable) is FOLTF by reference to one or more specific conditions being met; and
- the Bank of England has determined that the other relevant resolution conditions have been met (including, broadly, that there is no other viable alternative to stabilise the Company and/or Metro Bank and that it is in the public interest to resolve the Company and/or Metro Bank).

If the PRA were to determine that the Company or Metro Bank was FOLTF, whether or not the other resolution conditions will be met is a question of fact for the Bank of England to determine, including whether any other recovery or pre-resolution actions would be sufficient to stabilise it or whether it would continue to be FOLTF thereafter. Based on Metro Bank's systemic importance (it is the tenth largest bank in the UK mostly offering retail banking services) and the low probability of finding another commercial alternative to recapitalise the Group it the Transactions were not to complete, the Company considers it likely that all resolution conditions would be deemed met if the Company and/or Metro Bank was determined by regulators to be FOLTF.

***Bail-in***

If the Bank of England placed the Company or Metro Bank into formal resolution, five main stabilisation options i.e., resolution tools, would be available to the Bank of England (see Part III "*Supervision and Regulation—Recovery and resolution—Banking Act 2009 and BRRD*"). In respect of the Group, the Bank of England has stated that the preferred resolution strategy is a bail-in strategy with a single point of entry at the level of the Company. However, the Company expects that the Bank of England may also exercise the PoNV powers or bail-in powers at the level of Metro Bank in parallel or in isolation (in which case the Company's holdings in Metro Bank would be diluted).

If bail-in was used (either on its own or in combination with other resolution powers), it would result in the cancellation, transfer or dilution of the Shares and likely the write down or conversion of (as applicable) Metro Bank's and the Company's other own funds, including the Existing Tier 2 Notes, then the Existing MREL Notes, and, if necessary, other bail-inable

liabilities in order to recapitalise the Group and allow for Metro Bank to remain operational throughout the resolution. The actual approach taken, should the Group require resolution, will depend on the circumstances at the time of a failure, as all available options could be considered by the Bank of England.

The SRR requires the bail-in tool to be exercised in accordance with the insolvency ranking of creditors. The order of bail-in is predetermined in the Banking Act with, broadly, CET1 instruments (such as the Shares), being bailed in first (by way of cancellation, dilution, or transfer), followed by AT1 (of which there is none), then Tier 2 (such as the Existing Tier 2 Notes) and then MREL (such as the Existing MREL Notes). Following the write-down or conversion of all such capital instruments and MREL, the Bank of England would (if required) exercise the bail-in tool on other unsecured liabilities in accordance with their insolvency ranking. The UK has implemented preferential treatment of certain eligible deposits from natural persons and micro, small and medium-sized enterprises above the specified deposit cover, as well as certain amendments relating to the bail-in order of liabilities of financial institutions, as further described in Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*". Secured creditors, depositors up to the FSCS cover limit and certain other excluded claims will not be subject to bail-in. Consequently, it is anticipated that any such use of the bail-in tool by the Bank of England (either on its own or in combination with other resolution powers) would have a material adverse effect on Shareholders, as their claims would be cancelled, transferred, or severely diluted (if not already under the PoNV powers) for the purposes of stabilisation and loss absorption.

***Private sector purchase tool or other stabilisation options***

Although the Bank of England's preferred resolution strategy for the Group is bail-in, the Bank of England is afforded flexibility to change a group's resolution strategy, including during a resolution weekend, depending on the circumstances and the expected market impact of resolution action. In particular, per paragraph 4.2 of the MREL SoP, the actual approach taken to resolve an institution will depend on the circumstances at the time of its failure. The preferred resolution strategy may not necessarily be followed if a different approach would better meet the resolution objectives. If it would better meet the resolution objectives in the circumstances at the time of failure, the Bank of England could opt for the sale of all or part of the Group to a private purchaser either as an alternative to a bail-in or in conjunction with use of the bail-in power.

The Company considers this to be a probable course of resolution action in respect of the Company or Metro Bank, if the resolution conditions are met in relation thereto. This could be effected by the use of the private purchaser tool under which the Bank of England would make a resolution order by way of a share transfer or asset transfer instrument to transfer the Group as a whole or in part to a private entity. A share transfer to a private purchaser could have a similar impact on Shareholders as bail-in (as they would lose all rights and entitlements on the Shares, probably with limited or no consideration) and the Company expects it would be combined with bail-in or PoNV powers in order to achieve the write-down of the Company's and / or Metro Bank's debt capital instruments. Whilst PoNV powers would not affect the Existing MREL Notes, the private purchaser tool could be used in conjunction with the bail-in tool so as to write-down the Existing MREL Notes.

It is at least technically possible that bail-in or PoNV powers and the private purchaser tool could alternatively be applied in respect of Metro Bank only, leaving the Company with no assets and unable to meet its liabilities under the Existing MREL Notes. In such circumstances, the Company would be highly likely to enter insolvency proceedings and the Shares would likely have no value.

For further detail on the stabilisation powers (i.e., resolution tools) under the SRR, see Part III "*Supervision and Regulation—UK Regulation—Recovery and resolution—Banking Act 2009 and BRRD*".

***Other resolution powers***

There is a wide toolkit of ancillary resolution powers to be used in conjunction with the main stabilisation option – for example, the Bank of England may suspend or discontinue the

listing of the Shares, the Existing Tier 2 Notes and the Existing MREL Notes and may suspend third parties' termination and security enforcement rights against the Company or Metro Bank during the resolution weekend. The terms of the Shares could also be altered and payments could be suspended for a certain period. Rights of set-off could, subject to safeguards, also be affected. There can be no assurance that the use of any resolution tools or powers by the resolution authority or the manner in which they are exercised will not materially adversely affect Shareholders as holders of the Shares, the market value of the Shares and/or the Company's ability to satisfy any liabilities or obligations it has to Shareholders.

***No creditor worse off***

The SRR requires the resolution tools (stabilisation options) to be exercised in accordance with the general principle that no creditor shall incur greater losses than would have been incurred if the bank had been wound up under normal insolvency proceedings (the "no creditor worse off" principle).

The "no creditor worse off" principle means that, in certain circumstances, a Shareholder or creditor of the Company or Metro Bank may have a right to compensation if the treatment that they receive as a result of the resolution authority exercising a stabilisation option is less favourable than the treatment that they would have received under normal insolvency proceedings. Compensation payments, if any, may however be considerably later than contractual payment dates (in the same way that there may be a delay in recovering value in the event of insolvency).

## 29 No Significant Change

Save as disclosed in paragraph 9 of Part I "*Letter from the Chair of Metro Bank Holdings plc*", where the Group noted an increase in deposit outflow rates in advance of the announcement of the Transactions, there has been no significant change in the financial performance or financial position of the Group since 30 June 2023, the date of the Group's latest unaudited consolidated financial information.

## 30 Consents

PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of its accountants' report on the unaudited *pro forma* financial information in Section B of Part VII of this document and has authorised the contents of the part of this document which comprises its report for the purposes of Rule 5.3.2R(2)(f) of the Prospectus Regulation Rules. A written consent under the Prospectus Regulation Rules is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the Securities Act. As the New Shares have not been and will not be registered under the Securities Act, PricewaterhouseCoopers LLP has not filed and will not be required to file a consent under Section 7 of the Securities Act.

RBC Europe Limited, which is authorised in the United Kingdom by the FCA and regulated in the United Kingdom by the PRA and the FCA, has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.

## 31 Miscellaneous

**31.1** The total fees, costs, and expenses payable by the Company in connection with the Firm Placing are estimated to amount to approximately £6 million (including VAT).

**31.2** Each New Share is expected to be issued at a premium of 29.9999 pence to its nominal value of £0.000001.

**31.3** Where information included in this document has been sourced from a third party, the Company confirms that the information has been accurately reproduced and, as far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this document, the source of such information has been identified wherever it appears.

## 32 Documents Available for Inspection

Copies of the following documents are available from the date of this document on Company's website at www.metrobankonline.co.uk/investor-relations, subject to certain restrictions relating to persons resident in jurisdictions where the publication or distribution of this document and the associated information may be restricted by law and for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to completion of the Firm Placing at the offices of Linklaters LLP at One Silk Street, London EC2Y 8HQ and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

(a) the Articles of Association;

(b) the articles of association of Spaldy Investments;

(c) the consent letters referred to in paragraph 30 above;

(d) the Relationship Agreement;

(e) the Equity Commitment Letters;

(f) the unaudited *pro forma* financial information of the Group and the report from PwC thereon contained in Part VII of this document;

(g) the information incorporated by reference into this document, as described in Part XI of this document; and

(h) this document.

Dated: 9 November 2023

# PART XI

# INFORMATION INCORPORATED BY REFERENCE

The following documentation, which was sent to Shareholders at the relevant time and/or is available as described below, contains information that is relevant to the Firm Placing:

## 1 The 2020, 2021 and 2022 Annual Reports and Accounts and the 2023 Interim Financial Statements

These contain the audited consolidated financial statements of Metro Bank, together with its consolidated subsidiaries, as at and for each of the financial years ended 31 December 2020, 2021, and 2022, prepared in accordance with IFRS, together with audit reports in respect of each such year, as well as the unaudited condensed consolidated financial statements of the Group as at and for the six months ended 30 June 2023, prepared in accordance with IAS 34.

## 2 Other

The table below sets out the various sections of the documents referred to above which are incorporated by reference into this document, so as to provide the information required pursuant to Annex III of the Prospectus Regulation Rules and by Rule 24.3(e) of the City Code to ensure that Shareholders and others are aware of all information which, according to the particular nature of the Company and of the New Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company and of the Group and of the rights attaching to the New Shares.

| Reference document | Information incorporated by reference | Page number(s) in reference document |
|---|---|---|
| 2020 Annual Report and Accounts | Independent auditors' report to the members of Metro Bank plc | 152-163 |
| | Consolidated statement of comprehensive income | 164 |
| | Consolidated balance sheet | 165 |
| | Consolidated statement of changes in equity | 166 |
| | Consolidated cash flow statements | 167 |
| | Notes to the consolidated financial statements | 177-228 |
| 2021 Annual Report and Accounts | Independent auditors' report to the members of Metro Bank plc | 152-161 |
| | Consolidated statement of comprehensive income | 162 |
| | Consolidated balance sheet | 163 |
| | Consolidated statement of changes in equity | 164 |
| | Consolidated cash flow statements | 165 |
| | Notes to consolidated financial statements | 166-218 |
| 2022 Annual Report and Accounts | People and Remuneration Committee Report | 138-143 |
| | Corporate Governance Report | 99-101 |
| | Directors' Remuneration Policy – summary | 144-145 |
| | Single total figure of remuneration – Executive Directors (audited) | 148 |
| | Non-Executive Directors' remuneration | 158 |
| | Independent auditors' report to the members of Metro Bank plc | 171-180 |

| Reference document | Information incorporated by reference | Page number(s) in reference document |
|---|---|---|
| | Consolidated statement of comprehensive income | 181 |
| | Consolidated balance sheet | 182 |
| | Consolidated statement of changes in equity | 183 |
| | Consolidated cash flow statements | 184 |
| | Notes to the consolidated financial statements | 185-234 |
| 2023 Interim Financial Statements | Independent review report to Metro Bank Holdings PLC | 20 |
| | Unaudited condensed consolidated statement of comprehensive income | 21 |
| | Unaudited condensed consolidated balance sheet | 22 |
| | Unaudited consolidated cash flow statements | 23 |
| | Unaudited condensed consolidated statement of changes in equity | 24 |
| | Notes to the condensed consolidated interim financial statements | 25-46 |

Parts of the documents from which the information incorporated by reference have been incorporated are not set out above because they are either not relevant or are covered elsewhere in this document.

Where the information incorporated by reference makes reference to other documents, such other documents are not incorporated into, and do not form part of, this document.

# PART XII

# DEFINITIONS

| | |
|---|---|
| **2020 Annual Report and Accounts** | the annual report and accounts prepared by Metro Bank for the financial year ended 31 December 2020 |
| **2020 Financial Statements** | the audited consolidated financial statements of Metro Bank, together with its consolidated subsidiaries, as at and for the financial year ended 31 December 2020 |
| **2021 Annual Report and Accounts** | the annual report and accounts prepared by Metro Bank for the financial year ended 31 December 2021 |
| **2021 Financial Statements** | the consolidated audited financial statements of Metro Bank, together with its consolidated subsidiaries, as at and for the financial year ended 31 December 2021 |
| **2022 Annual Report and Accounts** | the annual report and accounts prepared by Metro Bank for the financial year ended 31 December 2022 |
| **2022 Financial Statements** | the consolidated audited financial statements of Metro Bank, together with its consolidated subsidiaries, as at and for the financial year ended 31 December 2022 |
| **2023 Interim Financial Statements** | the unaudited condensed consolidated interim financial statements of the Group as at and for the six months ended 30 June 2023 (which includes unaudited comparative financial information as at and for the six months ended 30 June 2022) |
| **AIs** | Accredited investors, as defined in Rule 501(a) under the Securities Act |
| **Additional Tier 1** | has the meaning given to it in the UK CRR |
| **Admission** | admission of the New Shares to (i) the Official List and (ii) trading on the London Stock Exchange's main market for listed securities |
| **AIRB** | the advanced internal ratings-based approach |
| **Arkeyo** | Arkeyo LLC |
| **Articles** or **Articles of Association** | the articles of association of the Company, which are described in paragraph 6 of Part X of this document |
| **Banking Act** | the Banking Act 2009 |
| **Banking Reform Act** | the Financial Services (Banking Reform) Act 2013 |
| **BCR** | the Banking Competition Remedies Limited |
| **Board** | the board of directors of Metro Bank Holdings PLC |
| **Boards** | the Board and the board of directors of Metro Bank plc |
| **Brexit** | the UK's withdrawal from the European Union |
| **BRRD** | the Banking Recovery and Resolution Directive |
| **Business Day** | a day (other than a Saturday or Sunday) on which banks are open for general business in London |
| **Capital Raisings** | together, the Firm Placing and the issuance of the Cash New MREL Notes |
| **Cash New MREL Notes** | the £175 million in aggregate principal amount of New MREL Notes to be issued for subscription in cash by the Company |
| **CET1 ratio** | Common Equity Tier 1 ratio |
| **C&I Fund** | the Capability and Innovation fund |

| | |
|---|---|
| **CCSS** | the CREST Courier and Sorting Service established by Euroclear to facilitate, amongst other things, the deposit and withdrawal of securities |
| **certificated** or **in certificated form** | a share or other security which is not in uncertificated form (that is, not in CREST) |
| **Chair** | the chair of the Company, Robert Sharpe |
| **City Code** | the UK City Code on Takeovers and Mergers |
| **Closing Price** | the closing, middle market quotation of an Existing Share, as published in the Daily Official List |
| **CMA** | the Competition and Markets Authority |
| **Companies Act** | Companies Act 2006 |
| **Company** | Metro Bank Holdings PLC, a public limited company incorporated under the laws of England and Wales |
| **CONC** | the Consumer Credit sourcebook |
| **Concert Party** | the concert party, whose members are listed in paragraph 2 of Part I |
| **Controlling Shareholder Group** | Spaldy Investments and Jaime Gilinski Bacal |
| **Corporate Governance Code** | the UK Corporate Governance Code (April 2018 edition) produced by the Financial Reporting Council |
| **Cost of Risk** | expected credit loss divided by average gross lending |
| **CRD IV** | the PRA Rulebook and other PRA publications) and the Capital Requirements Regulation |
| **CREST** | the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear is the operator (as defined in the CREST Regulations) |
| **CREST Manual** | the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure, CREST Glossary of Terms and CREST Terms and Conditions (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since) |
| **CREST member** | a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations) |
| **CREST Proxy Instruction** | instruction to appoint a proxy or proxies through the CREST electronic appointment service, as described in the CREST manual |
| **CREST Regulations** | the Uncertificated Securities Regulations 2001 (SI 2001/3755) |
| **CREST sponsor** | a CREST participant admitted to CREST as a CREST sponsor |
| **CREST sponsored member** | a CREST member admitted to CREST as a sponsored member |
| **Debt Commitment Letters** | the letters provided to the Company by certain existing noteholders committing to subscribe for £175 million in aggregate principal amount of Cash New MREL Notes at par to be issued for subscription in cash, subject to the other elements of the Transactions being successfully implemented |
| **Deferred Variable Reward Plan** | the Company's deferred variable reward plan adopted by the Company on 8 March 2023 |
| **Directors** | the Executive Directors and Non-Executive Directors as at the date of this document |

| | |
|---|---|
| **Disclosure Guidance and Transparency Rules** | the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority |
| **DTV ratio** | debt-to-value ratio, calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral |
| **EEA** | the European Economic Area |
| **ESG** | Environmental, Social and Governance |
| **EU** | the European Union |
| **EU DGSD** | the EU Deposit Guarantee Scheme Directive |
| **Employee Share Plans** | the Deferred Variable Reward Plan and the Long-Term Reward Plan |
| **Enlarged Share Capital** | the expected issued ordinary share capital of the Company immediately following the issue of the New Shares |
| **Euroclear** | Euroclear UK & International Limited, incorporated in England and Wales with registered number 02878738 |
| **Equity Commitment Letters** | means the letters provided to the Company by certain Shareholders and other investors committing to (i) participate in the Firm Placing; and (ii) vote in favour of the Shareholder Resolutions, in each case subject to certain conditions |
| **Exchange Act** | United States Exchange Act (1934), as amended |
| **Excluded Territories** | the Commonwealth of Australia, its territories and possessions, Canada, Japan and the Republic of South Africa and any other jurisdiction where the extension into or availability of the Firm Placing would breach any applicable law |
| **Executive Directors** | the executive directors of the Company as at the date of this document |
| **Existing MREL Notes** | the Company's £350 million Fixed Rate Reset Callable Notes due 2025 |
| **Existing Shares** | the Shares in issue immediately preceding the issue of the New Shares |
| **Existing Tier 2 Notes** | Metro Bank's £250 million Fixed Rate Subordinated Notes due 2028 |
| **Financial Conduct Authority** or **FCA** | the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA |
| **Financial Statements** | together, the 2020 Financial Statements, the 2021 Financial Statements, the 2022 Financial Statements and the 2023 Interim Financial Statements |
| **Firm Placee** | any person who has agreed to subscribe for New Shares pursuant to the Firm Placing |
| **Firm Placing** | the firm placing of the New Shares, as described in this document |
| **FLS** | the Funding for Lending scheme |
| **Form of Proxy** | the form of proxy enclosed with this document for use in connection with the General Meeting |
| **FOS** | the Financial Ombudsman Service |
| **FSCS** | the Financial Services Compensation Scheme |
| **FSMA** | the Financial Services and Markets Act 2000, as amended |
| **GDPR** | the General Data Protection Regulation |
| **General Meeting** | the general meeting of the Company for the purposes of seeking approval to undertake the Firm Placing to be held at 11:30 a.m. on 27 November 2023 at One Southampton Row, London WC1B 5HA, notice of which is set out on pages 213 to 217 (inclusive) of this document |

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| **Government** | the government of the United Kingdom |
| **Group** | the Company and its subsidiary undertakings and, where the context requires, its associated undertakings |
| **Historical Financial Information** | Metro Bank and its subsidiaries' audited consolidated financial statements as at and for each of the financial years ended 31 December 2020, 2021 and 2022 and the Group's unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2023 which includes the unaudited comparative financial information for the six months ended 30 June 2022. |
| **HMRC** | His Majesty's Revenue and Customs |
| **IFRS** | together, Post-Brexit IFRS and UK IFRS |
| **ISIN** | International Securities Identification Number |
| **Issue Price** | 30 pence per New Share |
| **Independent Directors** | in relation to the Rule 9 Waiver Resolution, each of the Directors except Dorita Gilinski |
| **Independent Shareholders** | all Shareholders with the exception of the members of the Concert Party |
| **Legacy Deferred Variable Reward Plan** | The Deferred Variable Reward Plan 2016 operated by Metro Bank |
| **Legacy Long Term Incentive Plan** | The Long Term Incentive Plan 2021 operated by Metro Bank |
| **Legacy Share Schemes** | The Legacy Long Term Incentive Plan, Legacy Deferred Variable Reward Plan, Legacy ShareBuy Plan and Legacy Long Term Reward Plan |
| **Legacy ShareBuy Plan** | the ShareBuy Plan and Trust Deed 2017 operated by Metro Bank |
| **Legacy SIP Trust** | The employee benefit trust operated by Equiniti Share Plan Trustees Limited that holds Shares under the Legacy ShareBuy Plan |
| **Leverage Ratio** | total CET1 resources to total exposures |
| **Listing Rules** | the listing rules of the Financial Conduct Authority |
| **LCR** | the Liquidity Coverage Ratio |
| **LTD ratio** | the ratio of total loans and advances to customers to deposits from customers |
| **London Stock Exchange** | London Stock Exchange plc |
| **Long Term Incentive Plan** | the Company's long term incentive plan adopted by the Company on 8 March 2023 |
| **Legacy Long Term Reward Plan** | the Long Term Reward Plan 2014 operated by Metro Bank |
| **MCD** | the Mortgage Credit Directive |
| **Member States** | The member states of the EU |
| **Metro Bank** | Metro Bank plc, a public limited company incorporated under the laws of England and Wales |
| **MMR** | the Mortgage Market Review |
| **Money Laundering Regulations** | Money Laundering Regulations 2007 (SI 2007/2157) |
| **MREL** | the minimum requirement for own funds and eligible liabilities |
| **New MREL Notes** | the proposed issuance of new £525 million 12 per cent. Fixed Rate Reset Callable Notes due 2029 by the Company |
| **New Shares** | the 500,000,000 new Shares to be allotted and issued by the Company pursuant to the Firm Placing |

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| **New Tier 2 Notes** | the proposed issuance of new £150 million 14 per cent. Fixed Rate Reset Callable Subordinated Notes due 2034 by the Company |
| **NIM** | net interest margin |
| **Non-Cash New MREL Notes** | the £350 million in aggregate principal amount of New MREL Notes to be issued in an effective exchange for the Company's Existing MREL Notes |
| **Non-CREST Shareholders** | Shareholders holding Shares in certificated form |
| **Non-Executive Directors** | the non-executive directors of the Company as at the date of this document |
| **Notice of General Meeting** | the notice of General Meeting set out in this document |
| **OFAC** | Office of Foreign Assets Control |
| **Official List** | the Official List of the FCA |
| **Panel** | the Panel on Takeovers and Mergers |
| **PoNV** | point of non-viability |
| **Post-Brexit IFRS** | international accounting standards in conformity with the requirements of the Companies Act 2006 |
| **PRA** | the UK Prudential Regulation Authority |
| **Prospectus** or **this document** | this prospectus and circular issued by the Company in respect of the Firm Placing, together with any supplements or amendments thereto |
| **PR Regulation** | Commission Delegated Regulation (EU) 2019/980 supplementing the UK Prospectus Regulation as regards the format, content, scrutiny, and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 as it forms part of retained EU law as defined by the European Union (Withdrawal) Act 2018 |
| **Prospectus Regulation Rules** | means the Prospectus Regulation Rules made by the FCA, as from time to time amended and includes, where appropriate, relevant provisions of the UK Prospectus Regulation as referred to or incorporated within the Prospectus Regulation Rules |
| **RBC** | RBC Europe Limited |
| **Receiving Agent** | Metro Bank Holdings PLC |
| **Reference Date** | 3 November 2023, being the latest practicable date before the date of this document |
| **Registrar** | Equiniti Limited |
| **Regulation S** | Regulation S under the Securities Act |
| **Regulatory Information Service** | a regulatory information service that is approved by the FCA and that is on the list of regulatory information service providers maintained by the FCA |
| **Reporting Accountants** | PricewaterhouseCoopers LLP |
| **Rule 9 Waiver** | the waiver granted by the Panel (subject to the passing of the Rule 9 Waiver Resolution by the Independent Shareholders) in respect of the obligation on the members of the Concert Party to make a mandatory offer for the entire issued share capital of the Company not already held by Spaldy Investments which might otherwise be imposed on Spaldy Investments under Rule 9 of the City Code as a result of the Firm Placing, as more particularly described in paragraph 5 of Part I of this document |

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| **Rule 9 Waiver Resolution** | the ordinary resolution of the Independent Shareholders to be taken on a poll concerning the Rule 9 Waiver to be proposed at the General Meeting and set out in the Notice of General Meeting as Resolution 4 |
| **RWA Matter** | Metro Bank's adjustment of its RWAs in the amount of approximately £900 million, which was announced in January 2019 |
| **SDRT** | Stamp Duty Reserve Tax |
| **Securities Act** | the US Securities Act of 1933, as amended |
| **SEDOL** | Stock Exchange Daily Official List |
| **Senior Managers** or **Executive Committee** | the senior managers of the Company as at the date of this document |
| **Share** | an ordinary share of £0.000001 in the capital of the Company having the rights set out in the Articles, as described in paragraph 6 of Part X of this document |
| **ShareBuy Plan** | the Company's ShareBuy Plan adopted by the Company on 8 March 2023 |
| **Shareholder Resolutions** | the shareholder resolutions to be proposed at the General Meeting in connection with the Transactions, notice of which is set out on pages 213 to 217 (inclusive) of this document |
| **Shareholders** | holders of Shares |
| **Share Schemes** | The Long Term Incentive Plan, the Deferred Variable Reward Plan, the ShareBuy Plan and the Legacy Share Schemes. |
| **SMEs** | small- and medium-sized enterprises |
| **SSAS** | Small Self-Administered Scheme |
| **Spaldy Investments** | Spaldy Investments Limited, a limited company incorporated under the laws of the British Virgin Islands with registered number 2000635 that is wholly owned by Jaime Gilinski Bacal, through which he holds his existing shareholding in the Company |
| **Sponsor** | RBC Europe Limited |
| **Sponsor and Placing Agent Agreement** | the sponsor and placing agent agreement entered into by the Company and RBC and its affiliates on 9 November 2023 in connection with Admission and the Firm Placing |
| **Temenos** | Temenos Group AG |
| **TFS** | the Bank of England's Term Funding Scheme |
| **TFSME** | the Bank of England's Term Funding for Small and Medium Enterprises |
| **Total capital ratio** | the total of Tier 1 and Tier 2 capital as a percentage of year-end RWAs |
| **Transactions** | together, the Capital Raisings, the issuance of the Non-Cash New MREL Notes and the issuance of the New Tier 2 Notes |
| **UK** or **United Kingdom** | the United Kingdom of Great Britain and Northern Ireland |
| **UK IFRS** | UK-adopted international accounting standards |
| **UK MAR** | the Market Abuse Regulation (EU) No 596/2014 (as it forms part of retained EU law as defined in the EU (Withdrawal) Act 2018) |
| **UK Prospectus Regulation** | Regulation (EU) 2017/1129 and amendments thereto (as it forms) part of retained EU law as defined in the EU (Withdrawal) Act 2018) |
| **uncertificated** or **in uncertificated form** | recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST |

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| **Underlying cost-to-income ratio** | underlying operating expenses as a percentage of underlying total income, where total underlying income and expenses are adjusted for certain items that may distort year-on-year comparisons |
| **United States** or **US** | the United States of America, its territories and possessions, any state of the United States and the District of Columbia |
| **VAT** | value added tax |

# NOTICE OF GENERAL MEETING

## Metro Bank Holdings PLC

(*a public limited company registered in England and Wales with registered number 14387040)*

NOTICE IS GIVEN that a general meeting of Metro Bank Holdings PLC (the "**Company**") will be held at **11:30 a.m. (London time) on 27 November 2023 at One Southampton Row, London WC1B 5HA** (the "**General Meeting**") for the purpose of considering and, if thought fit, passing the following resolutions, which, in the case of Resolutions 1 and 2 below, will be proposed as ordinary resolutions, in the case of Resolution 3 below, will be proposed as a special resolution, and in the case of Resolution 4 will be proposed as an ordinary resolution of the Independent Shareholders:

## ORDINARY RESOLUTIONS

THAT:

1. Subject to and conditional upon Resolution 4 being duly passed the terms of the proposed issue by way of a firm placing of 500,000,000 new ordinary shares of £0.000001 each in the capital of the Company at an issue price of 30 pence per new ordinary share (the "Firm Placing") (which is a discount of 33.7 per cent. to the closing price of 45.25 pence per share on the last business day before the announcement of the Firm Placing), as described in the combined circular and prospectus of which the Notice of this General Meeting forms part (the "Prospectus"), be and are hereby approved and the board of directors of the Company be and are hereby directed to implement the Firm Placing on the basis described in the Prospectus and be and are generally and unconditionally authorised to exercise all powers of the Company as necessary in connection with the implementation of the Firm Placing; and

2. subject to and conditional upon Resolution 2 above being duly passed and admission to the premium listing segment of the Official List and to trading on the London Stock Exchange plc's main market for listed securities, respectively, of the new ordinary shares of £0.000001 each to be issued by the Company in connection with the Firm Placing, and in addition to all existing authorities, the directors of the Company be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to a nominal amount of £500 pursuant to or in connection with the Firm Placing such authority to apply until the conclusion of the annual general meeting of the Company to be held in 2024, but, in each case, so that the Company may, before such expiry, make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority given by this resolution has expired.

## SPECIAL RESOLUTION

THAT:

3. Subject to and conditional upon Resolutions 1 and 2 being duly passed, and in addition to all existing powers, the board of directors be given power pursuant to section 571 of the Companies Act 2006 to allot equity securities (as defined in section 560(1) of the Companies Act 2006) for cash pursuant to the authority conferred by Resolution 2 above, as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, such power to be limited to the allotment of equity securities pursuant to the authority granted by Resolution 2 up to an aggregate nominal amount of £500, such power to apply until the conclusion of the annual general meeting of the Company to be held in 2024, but so that the Company may, before such expiry, make offers and enter into agreements which would, or might, require equity securities to be allotted after the power given by this resolution has expired.

## ORDINARY RESOLUTION OF THE INDEPENDENT SHAREHOLDERS

THAT:

4. subject to and conditional upon Resolutions 1, 2 and 3 above being duly passed, the waiver granted by the Panel on Takeovers and Mergers of any obligation which might otherwise fall on Spaldy Investments Limited or any persons acting in concert with it, both individually and collectively, to make an offer to the shareholders of the Company pursuant to Rule 9 of the City Code on Takeovers and Mergers as a result of the increase in its shareholding pursuant to the Firm Placing of up to 52.88 per cent. of the Company's Shares as at the time on which the Firm Placing completes, as described in the Company's circular to shareholders of which this notice forms part, be and is hereby approved.

**By order of the Board**

9 November 2023
*Director*
Robert Sharpe

*Registered Office*
One Southampton Row
London WC1B 5HA
United Kingdom

# NOTES TO THE NOTICE OF MEETING

**1 RIGHT TO ATTEND AND VOTE**

Entitlement to attend and vote at the General Meeting, and the number of votes which may be cast at the General Meeting, will be determined by reference to the Company's register of members at 6:30 p.m. (London time) on 23 November 2023 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting, excluding any part of such 48 hour period falling on a day that is not a Business Day (as the case may be). In each case, changes to the register of members after such time will be disregarded.

In order to comply with the City Code, Resolution 4 will be taken on a poll of independent shareholders. Spaldy Investments Limited will not be entitled to vote on the Resolution.

**2 PROXY APPOINTMENTS**

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

**2.2** A Form of Proxy is enclosed. If you do not have a Form of Proxy and believe that you should have one, or if you require additional Forms of Proxy, please contact the Company's Registrar, Equiniti, between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday (except public holidays in England and Wales) on +44 (0)371-384-2050. Calls outside the United Kingdom will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones. Please note that calls may be monitored or recorded and Equiniti cannot provide legal, tax or financial advice or advice on the merits of the Firm Placing. The appointment of a proxy will not prevent a member from subsequently attending and voting at the meeting in person.

**2.3** To appoint a proxy, the Form of Proxy and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority) must be (a) returned to the Company's Registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom, or (b) the proxy appointment must be lodged using the CREST Proxy Voting Service, in each case by no later than 11:30 a.m. (London time) on 23 November 2023 (or not less than 48 hours before the time appointed for any adjourned meeting, excluding any part of such 48 hour period falling on a day that is not a Business Day). Shareholders who would prefer to register the appointment of their proxy electronically via the internet can do so through the Sharevote website, www.sharevote.co.uk, using their personal Authentication Reference Number (this is the series of numbers printed under the headings Voting ID, Task ID and Shareholder Reference Number on the Form of Proxy). Alternatively, shareholders who have already registered with the Registrar's online portfolio service, Shareview, can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk by using their usual user ID and password. Once logged in, simply click "view" on the "My Investments" page, click on the link to vote and then follow the on-screen instructions. Full details and instructions on these electronic proxy facilities are given on the respective websites.

**2.4** To change your proxy instructions, you may return a new proxy appointment using the methods set out above. Where you have appointed a proxy using the hard copy Form of Proxy and would like to change the instructions using another hard copy Form of Proxy, please contact the Registrar. The deadline for receipt of proxy appointments also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same meeting, the one which is last sent shall be treated as replacing and revoking the other or others. If the Company is unable to determine which is last sent, the one which is last received shall be so treated. If the Company is unable to determine either which is last sent or which is last received, none of them shall be treated as valid in respect of the relevant share(s).

**2.5** In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for

this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

## 3 NOMINATED PERSONS

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with section 146 of the Companies Act 2006 ("**Nominated Persons**"). Nominated Persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

## 4 CREST MEMBERS

**4.1** CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting (and any adjournment of the meeting) by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

**4.2** In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com). The message (regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by the latest time for receipt of proxy appointments specified in Note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to a proxy appointed through CREST should be communicated to him by other means.

**4.3** CREST members (and, where applicable, their CREST sponsors or voting service providers) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this respect, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

**4.4** The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## 5 CORPORATE REPRESENTATIVES

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

## 6 VOTING BY POLL

The resolutions to be put to the meeting will be voted on by poll and not by show of hands. A poll reflects the number of voting rights exercisable by each member and so the board of directors of the Company considers it a more democratic method of voting. Members and proxies will be asked to complete a poll card to indicate how they wish to cast their votes. These cards will be collected at the

end of the meeting. The results of the poll will be published on the Company's website and via a Regulatory Information Service once the votes have been counted and verified.

**7 TOTAL VOTING RIGHTS**

As at 3 November 2023 (being the latest practicable date prior to the printing of this Notice), the issued listed share capital of the Company with voting rights comprised 172,676,547 ordinary shares of £0.000001 each carrying one vote. The total voting rights in the Company as at 3 November 2023 were, therefore, 172,676,547.

**8 QUESTIONS**

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

**9 WEBSITE INFORMATION**

Information regarding the General Meeting, including the information required by section 311A of the Companies Act 2006, can be found at www.metrobankonline.co.uk/investor-relations.

**10 COMMUNICATIONS**

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