One Southampton Row
London WC1B 5HA
T: 0345 08 08 500
metrobankonline.co.uk

Lord Cromwell
Banking Competition Remedies Limited
4th Floor Thomas House
84 Ecclestone Square
London
SW1V 1PX

8 March 2019

Dear Lord Cromwell,

Thank you for your letter dated 4 March 2019 and for providing me with an opportunity to formally respond. Let me start by saying that we remain wholly committed to the activities contained in our bid and focused on ensuring we bring competition and choice to SMEs in the UK — a critically under-served segment of the market. We stand proudly behind our public commitments.

In response to the points raised in your letter, please see below.

Risk Weighted Assets (RWAs)
As discussed in our meeting on 6 February 2019, on 23 January 2019 we announced we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans. The adjustments arose in our calculations of risk weightings and the application of the Capital Requirements Regulation and PRA rules. They reflect both changes in how we interpret and apply these rules and the way we analyse data to arrive at risk weightings for these assets.

There have been no changes to what we set out: these adjustments had the combined effect of increasing our RWAs by some £900 million and they reduced Metro Bank's CET1 capital surplus by around £95 million. Nonetheless, we remain well capitalised and hold surpluses above both our regulatory requirements and management appetite.

It is also important to remember there is no deterioration in the credit quality of the affected assets. RWAs are a measure of our risk exposure and do not form part of the annual report and accounts, they are not audited and the adjustment does not constitute an 'accounting error'.

We have completed a review of classifications and risk-weights across the commercial loan portfolio, supported by an external advisor and do not expect any further financial impact or revisions. Furthermore, we are implementing changes to our internal procedures, recruiting additional expertise and have commenced a remediation of internal systems, process and controls.

Equity Capital Raise
With regards to the equity capital raise, when we met on 6 February 2019 the bank had not decided on the exact timings or quantum of our capital plan. However, the possibility of further equity capital was certainly in our plans and in our conversation we did say that raising equity was an option. In the three or so weeks that followed that meeting, we met with a number of stakeholders, following which Metro Bank took the view that confirming our capital plans and putting in place arrangements for an equity raise in the first half of 2019 would assist the market and provide a degree of clarity.

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As a result, during that period we also entered into discussions with our bankers — RBC, Jefferies and KBW. This enabled us to announce our plans to raise c.£350m of equity in 2019, with a committed standby underwrite in place, at the same time as our results, but not before.

We expect the equity raise to be completed in the first half of 2019, but no date has been set at the time of writing. Please note that our business plans have always incorporated equity capital raises. Metro Bank is a high-growth model and as such will continue to require growth capital over the medium term.

As you know, we did discuss on 6 February 2019 other options for improving capital efficiency at Metro Bank and I would like to assure you that these options remain open to us.

MREL Debt
The Bank of England's MREL (minimum requirements for eligible liabilities) Statement of Policy was published in 2016 and as such has been in the public domain for over two years. The market has long understood the impact of MREL on all banks and I believe we did mention this requirement when we met.

In our full-year results announcement we updated our outlook for MREL eligible security issuance in 2019, from c.£700m as previously indicated to the market to c.£500m, in order to meet our transitional MREL requirement by 1 January 2020.

As I'm sure you're aware, MREL is a requirement facing all major UK banks and building societies and not Metro Bank in isolation. We will issue additional debt in 2020 and 2021 as we work towards being 'fully resolvable' by 1 January 2022.

Investigation by the PRA and FCA
We were informed verbally by the PRA and FCA on 26 February 2019 of their intention to investigate and we announced this to the market the same day in conjunction with our full-year results. We received written notice of the investigation on 28 February 2019. Please let me assure you that when we met on 6 February 2019, I was unaware of the PRA's or FCA's intention to investigate. We will of course cooperate fully with the PRA and FCA on their investigations. We maintain a continuous dialogue with both our regulators and supervisory teams.

While we are not in a position to guide you on the likely impact on the bank (as the investigation has not yet commenced), our firm intention remains to deliver on the commitments outlined in the bid and our commitment to serve the needs of SMEs across the UK, in particular underserved SMEs in the North. The investigations should not impact our ability to meet our capital co-investment commitments or the timetable for delivery. Indeed, as you know, we have specifically structured the costs so they are manageable over the bid commitment period.

Full-year results and strategy evolution
The other information to have entered the public domain that we were not in a position to discuss with you when we met is, of course, the detail of our full-year results. Albeit some information was already known to the market following our trading update on 23 January 2019. We do not believe there is anything in relation to the performance of the bank which materially differs from what was expected.

What the results did demonstrate is the underlying strength of the bank, and highlights include:

- Record deposit growth of £4.0b; up 34% year-on-year to £15.7b
- Record lending growth of £4.6b; up 48% year-on-year to £14.2b. Loan to deposit ratio 91%
- Underlying profit before tax at £50.0m; up 140% year-on-year from £20.8m
- Record increase in customer accounts of 403,000 to 1,620,000

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We also announced the evolution of our strategy with an increased focus on SMEs, as you would expect given the announcement around the £120 million award from the Capability & Innovation Fund less than a week before. We confirm that we shared the details of our business plan and strategy with the PRA in advance of our results announcement on 26 February 2019.

We have at all times been wholly transparent with BCR Ltd and will keep you updated of any material developments in relation to our bid. I can confirm that the information supplied in this letter has been signed off by myself as CEO, and Vernon Hill as Chairman, on behalf of the board.

We believe now, as we did when we submitted our bid, that Metro Bank is best placed to provide competition and choice to SMEs up and down the country. The fundamental strengths of our bid remain unaffected. The bid we submitted was calibrated to be both affordable and deliverable, while offering SMEs something truly different. Please be assured we are fully cognisant of the fact that receiving these funds is both an honour and a tremendous responsibility.

I would be more than happy to discuss the above in further detail.

Yours sincerely,

Craig Donaldson
CEO