



Metro Bank

Annual Report 2019

Table of Contents

2

Chairman
Message

4

Officers

5

Shareowner
Services &
Inquires

6

Overview
& Business
Description

9

Specialty
Finance &
Consumer
Finance

10

Commercial
Finance
Group

11

Corporate
Finance

12

Capital
Finance

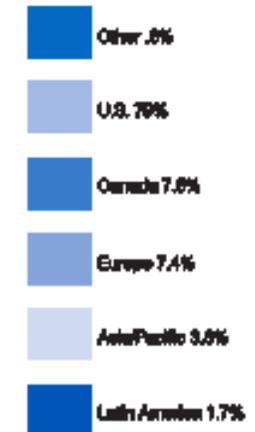
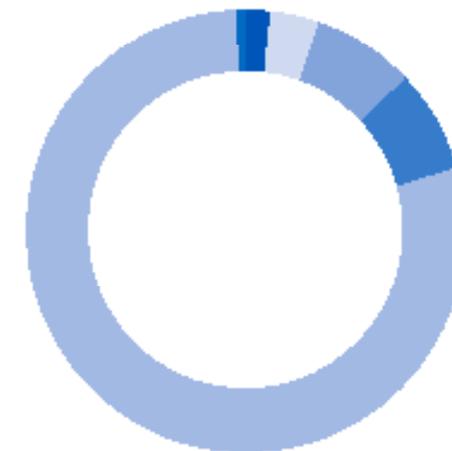
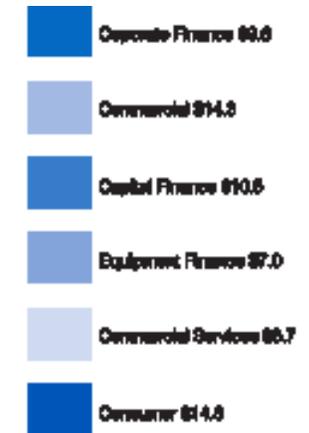
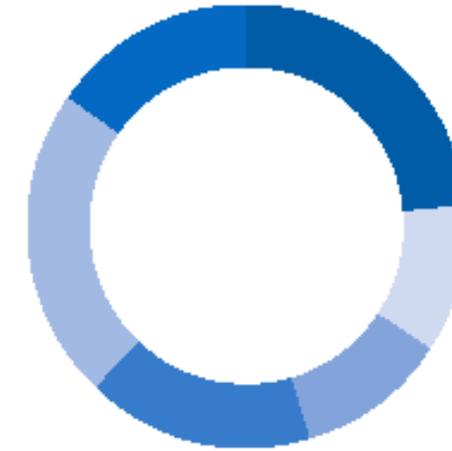
15

Report of
Independent
auditors

18

Notes for
Financial
Statements

Charts



Chairman Message

Dear Shareholders,

Over the past year, our management team has made great strides toward realizing our goal of leading this successful, century-old institution into its next chapter of life. We have always believed that METROBANK is uniquely positioned to become a world-class financial services organization, and we have put in place the roadmap to take us there.

Today, I am convinced that METROBANK has the financial and human capital necessary to perform strongly throughout fluctuating business cycles and become the leading global finance company for the commercial middle market.

In 2011, we began a fundamental restructuring to unleash METROBANK's potential. We developed realistic long-term growth strategies and enhanced cost and funding positions. We invested in our leadership and culture with a focus on talent acquisition. We rationalized our businesses by re-

aligning our portfolio, shedding slower-performing businesses and making strategic acquisitions in areas like healthcare (Healthcare Business Credit Corporation), and factoring (SunTrust). We also entered the growing student lending market with our acquisition of the Education Lending Group.

Together, all these initiatives created a unified platform that will enable METROBANK to deliver long-term growth supported by



strong risk standards for many years to come. We are not only pleased with the results we are seeing from this new direction, but we exceeded our financial goals in the midst of a significant internal restructuring, enjoying 27% EPS growth and a ROTE of 17.6% in 2015.

That is proof that our realigned, strengthened business platform combined with our deep industry expertise works. We believe it will play to our strengths in any economic environment allowing us to meet our objectives and become a more efficient organization in the process. Moving forward, our vision and strategy will continue to be driven by a strengthened sales culture, a more rational portfolio diversification and enhanced risk and capital discipline. 2015, therefore, is all about execution. We'll continue to recruit new talent and experienced executives to supplement the strong team at METROBANK. We're injecting a sales-oriented focus throughout the organization and will consider strategic acquisitions where they make sense.

And, most importantly, we continue to believe that our greatest growth opportunity is also our greatest strength: that we're uniquely positioned to be successful in the commercial and consumer finance markets we serve. Having served the middle market for nearly 100 years through 19 business cycles, we have a deep understanding of the financial needs of our customers and a clear view of what it takes to win.

In the end, I am confident that after reviewing our 2015 annual report you will agree that METROBANK has "the right stuff" to be a global financial services "leader," not just another "lender."

Jeffrey M. Peek
Chairman & CEO

Officers

MetroBank Inc.

505 Fifth Avenue
New York, NY 10017
Telephone: 212 555-0000

Number of employees:
Approximately 6,340 at
12/31/2015

Number of beneficial
shareholders: 96,761 as of
2/15/2015

Executive Officers

[Jeffrey M. Peek](#)

Chairman and
Chief Executive Officer

[Thomas B. Hallman](#)

Vice Chairman
Specialty Finance

[Robert J. Ingato](#)

Executive Vice President
General Counsel and Secretary

[Joseph M. Leone](#)

Vice Chairman and
Chief Financial Officer

[Lawrence A. Marsiello](#)

Vice Chairman and
Chief Lending Officer

[Walter J. Owens](#)

Executive Vice President and

Chief Sales and
Marketing Officer

[William J. Taylor](#)

Executive Vice President,
Controller and
Principal Accounting Officer

[Frederick E. Wolfert](#)

Vice Chairman
Commercial Finance

The NYSE requires that the Chief Executive Officer of a listed company certify annually that he or she was not aware of any violation by the company of the NYSE's corporate governance listing standards. Such certification was made by Mr. Peek on June 9, 2014

Certifications by the Chief Executive Officer and the Chief Financial Officer of CIT pursuant to section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to Metrobank's Annual Report on Form 10-K.

[Kelley J. Gipson](#)

Executive Vice President
Director, Brand Marketing
and Communications

MetroBank, Inc.

505 Fifth Avenue
New York, NY 10017
Telephone: (212) 771-9401

Investor Information
Stock Exchange Information
In the United States, Metrobank's
common stock is listed on the
New York Stock Exchange under
the ticker symbol "MET."

Shareowner Services

To transfer securities and for
address changes, write to:
The Bank of New York
Receive and Deliver Department
P.O. Box 11002
Church Street Station
New York, NY 10286

For shareowner inquiries,
write to:

The Bank of New York
Shareholder Relations
Department
P.O. Box 11258
Church Street Station,
New York, NY 10286

Form 10-K and other reports
A copy of Form 10-K and all
quarterly filings on Form 10Q,
Board Committee Charters,
Corporate Governance

Guidelines, Code of Ethical
Conduct and the Code of
Business Inquiries

Inquires

[Valerie L. Gerard](#)

Executive Vice President,
Investor Relations
MetroBank, Inc.
1 MetroBank Drive
Livingston, NJ 07039
Telephone: (973) 555-0000
Fax: (973) 555-1212

E-mail address:

valerie.gerard@MetroBank.com
For more information about
Metrobank, visit our Web site at
www.Metrobank.com.

Overview

Business Description

MetroBank, a Delaware corporation, is a leading global commercial and consumer finance company with a focus on middle-market companies. Founded in 1908, we provide financing and leasing capital for consumers and companies in a wide variety of industries. We offer vendor, equipment and commercial finance products, factoring, home lending, small business lending, student lending, structured financing products, and commercial real estate financing, as well as mergers and acquisitions and management advisory services. We manage \$62.9 billion in assets, including \$7.3 billion in securitized assets.



Our owned financing and leasing assets were \$55.6 billion and common stockholders' equity was \$6.5 billion at December 31, 2015.

- ❖ Specialty Finance Group
- ❖ Specialty Finance
- ❖ Consumer Finance
- ❖ Commercial Finance Group
- ❖ Corporate Finance
- ❖ Capital Finance

We have broad access to customers and markets through our diverse businesses. Each business has industry alignment and focuses on specific sectors, products, and markets, with portfolios diversified by client and geography. The majority of our businesses focus on commercial clients ranging from small to larger companies with particular emphasis on the middle-market. We serve a wide variety of industries, including manufacturing, transportation, retailing, wholesaling, construction, healthcare, communications and various service related industries. We also provide financing to consumers in the home and student loan markets.

Our commercial products include direct loans and leases, operating leases, leveraged and single investor leases, secured revolving lines of credit and term loans, credit protection, accounts

receivable collection, import and export financing, debtor-in-possession and turnaround financing, acquisition and expansion financing and U.S. government-backed small business loans. Consumer products are primarily first mortgage loans and government-backed student loans. Our commercial and consumer offerings include both fixed and floating-interest rate products.

We also offer a wide variety of services to our commercial and consumer clients, including capital markets structuring and syndication, finance-based insurance, and advisory services in asset finance, balance sheet restructuring, merger and acquisition and commercial real estate analysis.

We generate transactions through direct calling efforts with borrowers, lessees, equipment end-users, vendors, manufacturers and distributors, and through referral sources and other intermediaries. In addition, our business units work together both in referring transactions among units (i.e. cross-selling) and by combining various products and structures to meet our customers' overall financing needs. We also buy and sell participations in and syndications of finance receivables and lines of credit. From time to time, in the normal course of business, we purchase finance receiv-

ables on a wholesale basis (commonly called bulk portfolio purchases). We generate revenue by earning interest income on the loans we hold on our balance sheet, collecting rentals on the equipment we lease and generating fee and other income from our service-based operations. We also sell certain finance receivables and equipment to reduce our concentration risk, manage our balance sheet or improve profitability. We fund our businesses in the capital markets. The primary funding sources are term debt (U.S., European, and other), commercial paper (U.S., Canada and Australia), and asset backed securities (U.S. and Canada).

Specialty Finance Group

Commercial segment includes financing and leasing assets in our vendor programs, small business lending operation and the remaining assets of our liquidating portfolios (principally manufactured housing). Through our global relationships with industry-leading equipment vendors, including manufacturers, dealers, and distributors, we deliver customized financing solutions to both commercial and consumer customers of our vendor partners in a wide array of programs. These alliances allow our vendor partners to focus on their core competencies, reduce capital needs, manage credit risk and drive incremen-



tal sales volume. As a part of these programs, we offer (1) credit financing to the commercial and consumer end users for the purchase or lease of products, and (2) enhanced sales tools, such as asset management services, efficient loan processing, and real-time credit adjudication.

Certain of these partnership programs provide integration with the vendor's business planning process and product offering systems to improve execution and reduce cycle times. We have significant vendor programs in information technology, telecommunications equipment, and healthcare, and we serve many other industries through our global network. Our vendor alliances feature traditional vendor finance pro-

grams, joint ventures, profit sharing, and other transaction structures with large, sales-oriented vendor partners. In the case of joint ventures, we and the vendor combine financing activities through a distinct legal entity that is jointly owned. Generally, we account for these arrangements on an equity basis, with profits and losses distributed according to the joint venture agreement, and we purchase qualified finance receivables originated by the joint venture. We also use "virtual joint ventures," by which the assets are originated on our balance sheet, while profits and losses are shared with the vendor. These strategic alliances are a key source of business for us. Vendor finance also includes a small and mid-ticket commercial business which focuses on leasing office products, computers, and other technology products primarily in the United States and Canada. We originate products through relationships with manufacturers, dealers, distributors, and other intermediaries as well as through direct calling.

Our small business lending unit is primarily focused on originating and servicing loans under the U.S. government's Small Business Administration's 7(a) loan program. Loans are granted to qualifying clients in the retail, wholesale, manufacturing, and service sectors.

MetroBank is an SBA preferred lender and has been recognized as the nation's #1 SBA Lender (based on volume) in each of the last six years.

Specialty Finance

Commercial also houses our Global Insurance Services unit, through which we offer insurance products to existing CIT clients. We offer various collateral protection and credit insurance products that are underwritten by third parties. Revenue from this operation is allocated to the unit with the underlying financing relationship.

Consumer Finance

Consumer includes our home lending and student loan operations and MetroBank Bank, a Utah-based industrial bank with deposit-taking capabilities.

The home lending unit primarily originates, purchases and services loans secured by first or second liens on detached, single-family, residential properties. Products include both fixed and variable-rate, closed-end loans, and variable-rate lines of credit. Customers borrow to finance a home purchase, consolidate debts, refinance an existing mortgage, pay education expenses, or for other purposes.

Loans are originated through brokers and correspondents with a high proportion of home lending applications processed electronically over the Internet via BrokerEdgeSM, a proprietary system. Through experienced lending professionals and automation, we provide rapid turnaround time from application to loan funding, which is critical to broker relationships. We also buy/sell individual loans and portfolios of loans from/to banks, thrifts, and other originators of consumer loans to maximize the value of our origination network, to manage risk and to improve overall profitability.

Our centralized consumer asset service center services and collects substantially all of our consumer receivables, other than student loans, including loans retained in our portfolio and loans subsequently securitized or sold with servicing retained. We also service portfolios of loans owned by third parties for a fee on a "contract" basis. These third-party portfolios totaled \$3.0 billion at December 31, 2015.

In 2015, we broadened our consumer product offerings with the acquisition of Education Lending Group. Our student lending unit, which markets under the name Student Loan Xpress, offers student loan products, services, and solutions to students, parents, schools,

and alumni associations. Our business is focused on originating and purchasing government guaranteed student loans made under the Federal Family Education Loan Program, known as FFELP, which includes consolidation loans, Stafford loans and Parent Loans for Undergraduate Students (PLUS). We also offer and purchase alternative supplemental loans that may be guaranteed by a third-party guarantor.

To date, the majority of the loans we have originated are consolidation loans. We generally hold these loans on our balance sheet. Currently, we sell most of Stafford and PLUS loans we originate in the secondary market. The majority of our outstanding student loans are currently serviced by third parties, but we are shifting servicing in-house to Student Loan Xpress. MetroBank, with assets of \$368 million and deposits of \$273 million, is located in Salt Lake City, Utah and provides a benefit to us in the form of favorable funding rates for various consumer and small business financing programs in both the local and national marketplace. MetroBank also originates certain loans generated by bank affiliation programs with manufacturers and distributors of consumer products. The Bank is chartered by the state of Utah as an industrial bank and is subject to regulation and examina-

tion by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions.

Commercial Finance Group

Our Commercial Services segment provides factoring, receivable and collection management products, and secured financing to companies in apparel, textile, furniture, home furnishings, and other industries.

We offer a full range of domestic and international customized credit protection, lending, and outsourcing services that include working capital and term loans, factoring, receivable management outsourcing, bulk purchases of accounts receivable, import and export financing, and letter of credit programs. We provide financing to clients through the purchase of accounts receivable owed to clients by their customers, as well as by guaranteeing amounts due under letters of credit issued to the clients' suppliers, which are collateralized by accounts receivable and other assets. The purchase of accounts receivable is traditionally known as "factoring" and results in the payment by the client of a factoring fee that is commensurate with the underlying degree of credit risk and recourse, and which is generally a percentage of the factored receivables

MetroBank manages \$62.9 billion in assets, including \$7.3 billion in securitized assets. Our owned financing and leasing assets were \$55.6 billion and common stockholders' equity was \$6.5 billion at December 31, 2015.

or sales volume. When we "factor" (i.e., purchase) a customer invoice from a client, we record the customer receivable as an asset and also establish a liability for the funds due to the client ("credit balances of factoring clients"). We also may advance funds to our clients before collecting the receivables, typically in an amount up to 80% of eligible accounts receivable (as defined for that transaction), charging interest on advances (in addition to any factoring fees), and satisfying advances by the collection of receivables. We integrate our clients' operating systems with ours to facilitate the factoring relationship.

Clients use our products and services for various purposes, including improving cash flow, mitigating or reducing credit risk, increasing sales, and improving management information. Further, with our TotalSourceSM product, our clients can outsource their bookkeeping, collection, and other receivable processing to us. These services are attractive to industries outside the traditional factoring markets. We generate

business regionally from a variety of sources, including direct calling efforts and referrals from existing clients and other referral sources. We have centralized our accounts receivable, operations, and other administrative functions.

Corporate Finance

Our Corporate Finance segment provides secured financing, including term and revolving loans based on asset values, as well as cash flow and enterprise value, to a full range of borrowers from small to larger-sized companies, with emphasis on the middle market. We service clients in a broad array of industries with focused industry specialized groups serving communications, media and entertainment, energy and infrastructure, healthcare, commercial real estate and sponsor finance sectors in the U.S. and abroad.

We offer loan structures ranging from asset-based revolving and term loans secured by accounts receivable, inventories, and fixed assets to loans based

on earnings performance and enterprise valuations to mid- and larger-sized companies. Our clients use these loans primarily for working capital, asset growth, acquisitions, debtor-in-possession financing, and debt restructurings. We sell and purchase participation interests in these loans to and from other lenders.

We meet our customer financing needs through our variable rate, senior revolving and term loan products. We primarily structure financings on a secured basis, although we will periodically extend loans based on the sustainability of a customer's operating cash flow and ongoing enterprise valuations. We make revolving and term loans on a variable interest-rate basis based on published indices such as LIBOR or the prime rate of interest.

We also offer clients an array of financial and advisory services through an investment banking unit. The unit offers capital markets structuring and syndication capabilities as well as merger and acquisition, commercial real estate and balance sheet restructuring advisory services.

We originate business regionally through solicitation focused on various types of intermediaries and referrals. We maintain long-term relationships

with selected banks, finance companies, and other lenders both to obtain and to diversify our funding sources.

Capital Finance

Our Capital Finance segment specializes in providing customized leasing and secured financing primarily to end-users of aircraft, locomotives, and railcars. Our services include operating leases, single investor leases, equity portions of leveraged leases, and sale and leaseback arrangements, as well as loans secured by equipment. Our typical customers are major and regional, domestic and international airlines, North American railroad companies, and middle-market to larger-sized companies. We generate new business through direct calling, supplemented with transactions introduced by intermediaries and other referrals.





Report of Independent Auditors

To the Board of Directors
The MetroBank, N.A.

We have audited the accompanying balance sheets of The MetroBank, N.A. (the "Bank") as of December 31, 2015 and 2014, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates

made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The MetroBank, N.A. at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Arthur Anderson Inc.
New York NY February 1, 2016

The Park Avenue Bank, N.A.		
Statements of Income		
Years ended December 31	2016	2015
Interest income	\$ 19,279,830	\$ 12,855,847
Placements	438,199	325,552
Investments	1,040,033	139,094
Federal funds sold	149,671	280,858
	20,907,733	13,601,351
Interest expense	13,164,749	8,005,868
Net interest income	7,742,984	5,595,483
Provision for loan losses	2,599,232	430,000
Net interest income after provision for loan losses	5,143,752	5,165,483
Other operating income		
Fees and commissions	2,798,871	1,422,705
Other	(293,621)	159,640
Total other operating income	2,505,250	1,582,345
Operating expenses		
Salaries and benefits	2,963,866	2,722,611
Occupancy costs	344,582	488,069
Depreciation and amortization	233,642	273,637
Professional fees and other expenses	2,113,122	1,785,061
Total operating expenses	5,655,212	5,269,378
Income before income taxes	1,993,790	1,478,450
Income tax expense	852,505	525,685
Net income	1,141,285	952,765
Net income per share	4.94	4.12
Weighted average common shares outstanding	\$ 230,997	\$ 231,130
The accompanying notes are an integral part of the financial statements.		

The Park Avenue Bank, N.A. Statements of Cash Flows		
Years ended December 31	2016	2015
		Restated
Cash flows from operating activities		
Net income	\$ 1,141,285	\$ 952,765
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	233,642	273,637
Provision for loan losses	2,599,232	430,000
Decrease (increase) in trading account securities	1,841,611	(1,841,611)
Increase in accrued interest receivable	-1,972,221	(956,059)
Increase in accrued interest payable	-151,842	(894,544)
Increase in accrued expenses and other liabilities		
Net cash provided by (used in) operating activities	9,609,006	(1,074,117)
Cash flows from investing activities		
Increase in placements	(952,192)	(9,515)
Increase in loans, net	(90,014,089)	(77,616,445)
Purchases of securities held to maturity	(13,746,922)	(1,378,185)
Proceeds from maturities and redemptions of securities available for sale	3,503,258	1,001,919
Purchases of securities available for sale	(14,078,439)	(3,501,653)
Proceeds from maturities and redemptions of securities available for sale	3,503,258	1,001,919
Purchases of property and equipment	(367,475)	(1,052,514)
Increase in certificates of deposit and other time deposits	105,319,277	77,987,532
(Decrease) increase in other borrowings	(10,200,000)	9,200,000
Repurchase of common stock	-	(2,000)
Net cash provided by financing activities	96,393,039	84,750,909
Net (decrease) increase in cash due from banks and cash equivalents	\$ (2,223,814)	\$ 2,520,399
Note: During 2016 and 2015, The Park Avenue Bank, N.A. made payments of interest of \$11,947,004 and \$7,399,209 and for income taxes of \$1,151,673 and \$273,101, respectively.		

Notes to Financial Statements

December 31, 2015 and 2014

1. Business

The MetroBank, N.A. (the "MetroBank") was founded in 1987 as a national MetroBank and is regulated by the Comptroller of the Currency. It is a member of the Federal Reserve system and its deposits are insured by the Federal Deposit Insurance Corporation. The MetroBank is located at MetroBank Inc. 505 Fifth Avenue New York, NY 10017

The MetroBank's activities are focused on trade finance with Turkish, Latin American and European MetroBanks, and with middle market domestic U.S. companies in the New York Metropolitan region. Additionally, the MetroBank has developed a niche in lending to Turkish corporate names whose own export activities provide a foreign exchange hedge for these loans.

2. Summary of Significant Accounting Policies

The accounting and reporting policies of the MetroBank conform to general practices within the Metro Banking industry. The following is a description of the more significant of these policies:

Basis of Presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The MetroBank received rental concessions when it entered into an operating lease agreement during 2011. These rental concessions were incorrectly excluded from the determination of occupancy costs for the year ended December 31, 2014. As a result, net property and equipment has increased by \$339,150 to reflect assets purchased for which the MetroBank was reimbursed in the form of a building allowance, net of depreciation for 2014. In addition, due to the restatement, accrued expenses and other liabilities has increased by \$458,642 after taxes which represents deferred income related to the building allowance and rent free period which is being amortized over the life of the lease. Net income in 2014 has decreased by \$119,492 to reflect recording rental expense for the free rent period and depreciation of assets purchased. As a result, the accumulated deficit as of December 31, 2014 increased by the same amount. The 2014 financial statements have been restated to correct this error.

Certain financial statement items for the year ended December 31, 2015 have been reclassified to be comparable with the 2014 presentation.

Cash, Due from MetroBank's and Cash Equivalents

For purposes of reporting cash flows, cash, due from MetroBank's and cash equivalents include cash on hand and amounts due from MetroBank's, including certificates of deposit purchased with an original maturity of three months or less, and federal funds sold. Federal funds are sold on an overnight basis.

Securities

The MetroBank classifies its securities into three categories under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities": trading account securities, securities held to maturity and securities available for sale.

Securities that are held for resale in anticipation of short-term market movements are classified as trading account securities. These securities are stated at fair value. Gains and losses, both realized and unrealized, are included in income.

Securities held to maturity are recorded at cost adjusted for accretion of discount or amortization of premium. Discounts are accreted and premiums are amortized using the straight-line method, which

is not materially different from the interest method. The MetroBank has the positive intent and ability to hold its investment securities to maturity.

Securities used as part of the MetroBank's asset/liability management program that may be sold in response to changes in interest rates, prepayments and other factors, have been classified as available for sale. These securities, consisting of debt securities, are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of equity. Gains and losses on the disposition of securities are recognized on the specific-identification method in the period in which they occur.

Loans

Loans are stated at unpaid principal balances net of deferred loan origination and commitment fees. Loan origination and commitment fees and certain direct costs incurred in connection with loan originations are deferred and amortized under the straight-line method, which approximates the effective yield method.

The MetroBank does not accrue interest on loans, which are more than 90 days delinquent as to principal, or interest unless, in the opinion of management, collection is probable. Any accrued but unpaid interest previously recorded on loans designated as non-performing is reversed against current period interest income. Cash receipts of

interest on cash basis loans are recorded as either interest income or a reduction of principal, according to management's judgment as to the collectability of principal.

Allowance for Loan Losses

The allowance for loan losses is based on management's periodic review and evaluation of the loan portfolio and the potential loss in light of the current composition of the loan portfolio, current and prospective economic conditions and other relevant factors.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of these assets as follows:

Machinery and equipment	5 years
Leasehold improvements	
Life of the lease	(15 years) or the service lives of the improvements, whichever is shorter
Furniture and fixtures	12 years
Software	3 years

Income Taxes

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences

between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Net Income Per Share

Net income per share is computed by dividing the net income by the weighted average number of common shares outstanding for the period.

Foreign Currency Transactions

The MetroBank conducts its business in various foreign currencies. As a result, it is subject to the transaction exposures that arise from foreign exchange rate movements between the dates that foreign currency transactions are recorded and the date they are consummated. The MetroBank uses forward exchange contracts to protect the value of its foreign currency positions.

Foreign currency assets and liabilities and unmatured contracts for the purchase or sale of foreign currencies are revalued at current market rates. Income or loss from the revaluation are included in other income. Premiums and discounts related to foreign exchange contracts that hedge currency positions are considered an interest component and are amortized or accreted over the period being hedged.

3.Loans and Allowance for Loan Losses

The balances of loans at December 31, 2015 and 2014 are as follows:

	2015	2014
Domestic Commercial and industrial Financial institutions	\$ 26,105,271 <u>2,500,000</u>	\$15,223,717 <u>2,500,000</u>
	<u>28,605,271</u>	<u>17,723,717</u>
International Commercial and industrial Financial institutions	136,623,483 <u>98,583,571</u>	82,194,914 <u>74,992,503</u>
	<u>235,207,054</u>	<u>157,187,417</u>
Other	<u>180,066</u>	<u>15,932</u>
Total loans	<u>263,992,391</u>	<u>174,927,066</u>
Less allowance for loan losses	<u>(3,030,000)</u>	<u>(1,379,532)</u>
Loans, net of allowance for loan losses	<u>\$ 260,962,391</u>	<u>\$173,547,534</u>

Changes in the allowance for loan losses were as follows:

	2015	2014
Balance at January 1	\$ 1,379,532	\$ 949,532
Charge-offs	(1,000,000)	—
Recoveries	51,236	—

Provision for loan losses	<u>2,599,232</u>	<u>430,000</u>
Balance at December 31	<u>\$ 3,030,000</u>	<u>\$ 1,379,532</u>

At December 31, 2015 and 2014, the MetroBank had no recorded investment in loans that was considered to be impaired under SFAS No. 114.

At December 31, 2015 and 2014, approximately 89% and 90% of loans, respectively, were with international MetroBank's and corporations, primarily in Turkey and Latin America.

At December 31, 2011 and 2010, approximately 37% and 76% of the MetroBank's loan portfolio, respectively, consisted of fixed-rate loans.

At December 31, 2011 and 2010, the MetroBank had no non-performing loans.

The following table shows the maturity information for the MetroBank's loan portfolio at December 31, 2006:

The amortized cost and estimated fair value of investment securities held to maturity by contractual maturity are as follows:

	Amortized Cost	Estimated Fair Value
December 31, 2015		
Year ended Dec. 31:		
1998	\$ 6,179,665	\$6,188,664
1999-2002	207,783	208,983
2003 and thereafter	—	—
	<u>\$ 6,387,448</u>	<u>\$6,397,647</u>

4. Property and Equipment

Property and equipment is comprised of the following:

	2015	2014
Machinery and equipment	\$ 1,385,197	\$1,130,709
Leasehold improvements	1,096,583	1,071,442
Furniture and fixtures	148,082	132,561
	<u>2,629,862</u>	<u>2,334,712</u>
Less accumulated depreciation and		

amortization	(1,423,009)	(1,261,692)
Balance at Dec. 31	<u>\$ 1,206,853</u>	<u>\$1,073,020</u>

5. Deposits

Deposits at December 31, 2015 and 2014 were as follows:

	2015	2014
Demand deposits	\$ 6,309,083	\$5,313,413
Money market and NOW accounts	<u>\$ 7,243,582</u>	<u>\$6,965,490</u>

Certificates of deposit and other time deposits:

Domestic:		
Certificates of deposit \$100,000 and over	\$ 154,975,799	\$ 63,271,470
Certificates of deposit under \$100,000	91,958,753	83,238,109
Domestic time deposits	<u>2,088,364</u>	<u>—</u>
Total domestic certificates of deposit and other time deposits	<u>249,022,916</u>	<u>146,509,579</u>

Foreign:

Certificates of deposit \$100,000 and over	12,663,867	10,133,635
Certificates of deposit under \$100,000	1,748,916	2,161,351
Other time deposits		

from foreign offices	<u>909,259</u>	<u>221,116</u>
Total foreign certificates of deposit and other time deposits	15,322,042	12,516,102
Total certificates of deposit and other time deposits	<u>\$ 264,344,958</u>	<u>\$159,025,681</u>

The following table shows the MetroBank's certificates of deposit and other time deposit balances at December 31, 2015 by maturity date:

Year of Maturity	Balance
1998	\$213,824,353
1999	39,038,605
2000	593,000
2001	10,889,000
2002	—

Total time deposits \$ 264,344,958

At December 31, 2014 and 2015, approximately 10% and 12% of deposits, respectively, were from international Banks and corporations, primarily in Turkey and Latin America.

6. Income Taxes

Income taxes included in the statements of income for the years ended December 31, 2011 and 2010, consist of the following:

	2015	2014
Current:		
Domestic:		
Federal	\$ 784,917	\$ 604,507
State and local	339,091	214,465
Foreign	132,690	—
Total current	1,256,698	818,972
Deferred:		
Domestic:		
Federal	(290,191)	(218,375)
State and local	<u>(114,002)</u>	<u>(74,912)</u>
Total deferred	<u>(404,193)</u>	<u>(293,287)</u>
	<u>\$ 852,505</u>	<u>\$ 525,685</u>

The difference between book and taxable income is primarily due to temporary differences. Temporary differences are differences between book and taxable income which eventually reverse. The principal temporary differences are due to the treatment of the provision for loan losses, depreciation and amortization, and the deductibility of related party expenses and various professional fees.

As of December 31, 2015 and 2014, the MetroBank's gross deferred tax asset of \$1,389,696 and \$985,503 is composed primarily of its cumulative

net operating losses and temporary differences relating to the provision for loan losses and depreciation. Under SFAS No. 109, a valuation allowance must be established to offset any portion of a deferred tax asset which more likely than not will not produce a future benefit. The valuation allowance is \$270,102 as of December 31, 2015 and 2014.

As of December 31, 2015, the MetroBank had cumulative net operating loss carryforwards for federal income tax purposes of \$1,566,813, which begin to expire in 2004. The utilization of its net operating loss carryforwards is limited as a result of a change in the MetroBank's ownership in 1990. The annual limitation on income that may be offset is \$230,899 in addition to any unused annual limitations from prior years.

The difference between the actual provision for income taxes and income taxes computed at the federal statutory rate for the year ended December 31, 2015, is primarily due to the different tax and book treatment of loan loss reserves and state and local taxes. Additionally, the MetroBank invested in Turkish government Treasury bills on which Turkish taxes of \$132,690 were withheld. As a result, the MetroBank is entitled to a full foreign tax credit in 2011.

7. Related Party Transactions

The MetroBank is 94.6% owned by the The Shareholders, which owns or has significant investments in various Banking and commercial enterprises domiciled in Turkey, France and Switzerland. In

the ordinary course of business, the MetroBank participates in correspondent banking activities with certain of these affiliates and additionally may receive deposits or provide loans or letters of credit or transact other banking business with affiliates (subject to regulatory limitations).

As of December 31, 2015 and 2014, transactions with affiliated parties reflected in the accompanying financial statements are as follows:

	<u>2015</u>	<u>2014</u>
Cash and due from MetroBank's	\$ 6,447	\$ 1,386
Loans	3,100,000	3,100,000
Accrued interest receivable	133,236	38,244
Demand deposits	347,350	60,480
Other borrowings	-	10,200,000
Accrued interest payable	1,667	1,085
Accrued expenses and other liabilities	14,426	-
Subordinated debt	5,000,000	5,000,000
Interest income	323,431	321,428
Interest expense	858,322	422,533
Fees and commissions	88,880	-
Operating expenses	261,129	155,334
Foreign exchange contracts, net mark-to-market	25,029	344,810
Financial commitment received	10,000,000	-

The MetroBank maintains a correspondent Metro-

Bank account with its affiliate, Banque Internationale de Commerce, to effect the settlement and clearing of transactions denominated in French francs. As of December 31, 2014 and 2015, the balance in this account is immaterial.

As of December 31, 2015 and 2014, loans aggregating \$3.1 million are outstanding to these affiliated parties. Accrued interest receivable on these loans is \$133,236 and \$38,244 as of December 31, 2011 and 2010, respectively. Interest earned on these loans totaled \$323,431 and \$321,428 in 2010 and 2010, respectively. As of December 31, 2015, the interest rate on these loans are 10% and 10.5% respectively and both credit facilities are fully collateralized by letters of credit issued by unrelated financial institutions.

Occasionally, the MetroBank receives deposits from affiliated parties. As of December 31, 2014 and 2015, the balance of demand deposits from affiliate parties is \$347,350 and \$60,480, respectively. The largest component of such demand deposits as of December 31, 2011, is \$345,985 representing funds received from Iktisat.

Occasionally, the MetroBank obtains overnight funding from its affiliated parties. As of December 31, 2016 and 2015, the MetroBank has other borrowings from affiliated parties aggregating \$0 and \$10.2 million, respectively.

In accordance with the Subordinated Debt Agreement (the "Agreement") between Iktisat and the MetroBank, dated February 11, 1991, pursuant to a

non-public offering, the MetroBank sold to Iktisat a certain subordinated note (the "Note") of the MetroBank in the amount of \$5,000,000. During 2011, certain terms of the Note were amended. The Note matures on May 3, 2011 and bears interest at a fixed rate of 12% at December 31, 2011 compared to a maturity of May 3, 2010 and interest rate at LIBOR+ 2.25% at December 31, 2011. Accrued interest payable on the Note is \$1,667 and \$1,085 as of December 31, 2011 and 2010, respectively. The MetroBank incurred interest expense aggregating \$503,646 and \$402,387 in 2016 and 2015, respectively.

The MetroBank's representative in Turkey occupies space rented from Iktisat. The MetroBank is charged for all direct expenses. In addition, Iktisat allocates indirect expenses to the MetroBank. Direct and indirect expenses, included in operating expenses, totaled \$246,703 in 2011 and \$155,334 in 2010.

The MetroBank purchases Turkish government Treasury bills from Iktisat. At the discretion of management, the MetroBank enters into foreign exchange contracts to hedge the currency exposure associated with these investments. During 2011 and 2010, the MetroBank amortized premium expense aggregating \$349,820 and \$0, respectively, which is included in interest expense, as a result of acquiring such contracts. Separately, the MetroBank also enters into foreign exchange contracts with Iktisat to fund currency denominated loans to other non-affiliated counterparties and hedge the currency exposure associated with lending in for-

foreign currency. The net mark-to-market value associated with such contracts is \$25,029 and \$344,810 as of December 31, 2011 and 2010, respectively.

In June 2015, Iktisat provided a financial commitment for the purchase of \$10 million in loans made by the MetroBank to non-affiliated Turkish parties or Turkish government treasury bills at the discretion of the MetroBank's management. This commitment essentially guarantees the MetroBank with a future source of liquidity. The MetroBank pays to Iktisat a commitment fee, included in accrued expenses and other liabilities in the balance sheet and operating expenses in the income statement, which aggregated \$14,426 as of and for the year ended December 31, 2015.

Pursuant to a custody agreement dated December 23, 2015, the MetroBank entered into an arrangement with Iktisat whereby it would act as custodian for certain assets, primarily including securities, purchased by the MetroBank on behalf of Iktisat with funds provided by Iktisat. The MetroBank's custody services provided to Iktisat resulted in fee income of \$88,880 and \$0 in 2011 and 2010, respectively. The custody agreement was terminated as of March 6, 2009.

8. Commitment

Lease Commitment

During 2011, the MetroBank relocated its office facility and entered into an operating lease agreement with an original lease term of 15 years. During

2015, a lease amendment was signed through which the MetroBank acquired additional office space at the aforementioned facility. The minimum rental commitments under noncancelable operating leases at December 31, 2016 are as follows:

2011	\$	1,453,763	
2012		541,712	
2013		541,712	
2014		575,620	
2015		586,922	
Thereafter		5,143,506	\$7,843,235

9. Financial Instruments with Credit Risk

Credit risk represents the maximum potential loss the MetroBank faces due to possible nonperformance by obligors and counterparties of the terms of their contracts.

In the normal course of business, the MetroBank is a party to various types of off-balance sheet commitments which involve potential credit risk in excess of the amounts recognized in its balance sheet. The types of commitments undertaken are predominantly trade finance related and include various types of letters of credit. These credit risks are generally monitored and controlled in conjunction with the MetroBank's lending activities.

In connection with its funding and lending activities, MetroBank will, on behalf of customers, or in an effort to minimize interest cost or increase interest revenue, borrow or lend in a foreign currency. MetroBank is subject to the market risk associated

with changes in the value of the underlying foreign exchange contract as well as the credit risk that another party will fail to perform. It is the MetroBank's practice to avoid net exposures to foreign currency exchange rate changes and, accordingly, MetroBank may enter into contracts for future purchase or sale of foreign currency to offset any currency exposure arising from its funding and lending activities. For these commitments, the credit risk amount is represented by the cost of replacement for contracts in a gain position, rather than the contract amount.

In meeting its customers' financing needs, the MetroBank may issue commitments to extend credit. For these types of commitments, the contractual amounts of the financial instruments represent the maximum potential credit risk in the event of non-performance by the counterparty. However, since not all such commitments are drawn down prior to their expiration, the contractual amounts do not necessarily represent actual future credit risk.

MetroBank manages the credit risk of counterparty defaults in these transactions by limiting the total amount of arrangements outstanding, both by individual counterparty and in the aggregate, by monitoring the size and maturity structure of the off-balance sheet portfolio, and by applying the uniform credit standards maintained for all activities with credit risk. The MetroBank may obtain collateral when granting a loan depending upon management's assessment of the underlying credit risk.

Throughout 2011, the MetroBank utilized off-balance sheet credit derivatives, principally credit default swaps. MetroBank's purpose in the use of such credit derivatives is to diversify its own credit risk by assuming a credit risk different than that already existing and enhance fee income. Under the terms of the various agreements the MetroBank provides credit protection to the referenced party upon the occurrence of a credit event of a specified entity, the referenced credit. A credit event is defined in the agreement as the occurrence of a payment default, Bankruptcy or insolvency of the referenced credit, coupled with a material adverse change in the market value of the reference security. At December 31, 2011, the underlying referenced credit was primarily with sovereign nations, such as Turkey, Russia, Mexico and Venezuela, and their respective ability in satisfying their obligations with respect to its own issued securities in the form of Eurobonds, denominated in Japanese Yen, United States Dollar, Deutsch Mark, or British Pound. The MetroBank's maximum liability on the credit derivatives in the event of default by the referenced credit is equal to \$5 million for each contract or \$20 million for the four contracts. In addition, the market risk associated with the credit default swaps arises from the potential for changes in interest rates and foreign exchange rates. The MetroBank accounts for such credit derivatives using the accrual method of accounting for the fee income earned and mark-to-market valuation for the open contracts with any changes flowing through earnings. As of December 31, 2015, there were four credit derivatives, principally credit default swaps, identifying the MetroBank as the Seller of Credit Protection, totaling \$20

million in notional value. The net market value of the MetroBank's credit default swaps was immaterial as of December 31, 2014. The average maturity on the open contracts ranged from one to two years with fees ranging from 75 to 240 basis points per annum. For each contract the MetroBank was contractually required to provide a percentage of collateral in the form of securities. The pledged securities, which are classified as available for sale in the balance sheet, have a market value at December 31, 2011 of \$7,600,255.

As of December 31, 2015 and 2014, the MetroBank was party to the following outstanding financial instruments involving off-balance sheet risk:

	<u>2016</u>	<u>2015</u>
Letters of credit issued or confirmed	\$ 30,180,529	\$26,008,227
Standby letters of credit	3,350,647	558,601
Foreign exchange contracts	22,514,596	10,623,513
Steamship guarantee	-	50,620
Credit default swaps	20,000,000	-

10. Derivative Financial Instruments Held or Issued for Purposes Other Than Trading

The MetroBank's principal objective in holding or issuing derivatives for purposes other than trading is asset/liability management. The operations of the MetroBank are subject to a risk of foreign exchange rate fluctuations to the extent that there

is a difference between the amount of the MetroBank's foreign exchange-earning assets and the amount of foreign exchange-bearing liabilities that mature or reprice in specified periods. The principal objective of the MetroBank's asset/liability management activities is to provide maximum levels of net income while maintaining acceptable levels of foreign exchange rate risk and facilitating the funding needs of the MetroBank. To achieve that objective, the MetroBank uses forward exchange contracts to protect the value of its foreign currency positions. The fair value of these forward contracts is not reflected in the statements of income or in the balance sheets.

11. Fair Values of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices or known sales prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts as presented do not represent the underlying value of the MetroBank.

The following methods and assumptions were used by the MetroBank in estimating its fair value disclosures for financial instruments:

Securities: Fair values of securities are based on quoted market prices.

Loans: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed rate loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar quality.

Deposit Liabilities: Fair values of deposits with fixed rates are calculated using contractual cash flows discounted at rates equal to current rates offered in the market for similar deposits with the same remaining maturities.

Unused Commitments to Make Loans and Standby Letters of Credit: Fair values for these off-balance sheet instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of these off-balance sheet instruments is immaterial at December 31, 2016.

Foreign Exchange Contracts: Fair values for foreign exchange contracts held for speculative purposes are based on forward foreign exchange rates for those contracts maturing in greater than two days. Fair values for similar contracts maturing in

two days or less are based on current spot foreign exchange rates. The fair value of foreign exchange contracts held for speculative purposes is immaterial at December 31, 2015.

Credit Default Swaps: Fair values of credit default swaps are estimated using discounted cash flow analysis, using interest rates currently being offered for credit default swaps or other financial instruments with similar characteristics, including reference credit parties of similar quality. The fair value of credit default swaps is immaterial at December 31, 2015.

For certain classes of financial instruments with short maturities or that reprice frequently, and excluding subordinated debt, the carrying amounts of the instruments approximate their fair values. These financial instruments are cash and due from MetroBanks, federal funds sold, placements and interest-earning deposits, accrued interest receivable, customer's liability on MetroBankers' acceptances, demand deposits, acceptances outstanding, and accrued interest payable.

The estimated fair value of the MetroBank's financial instruments is as follows:

	December 31, 2016	Carrying Amount	Estimated Fair Value
Financial assets			
Cash and due from Banks	\$	2,025,463	\$2,025,463
Federal funds		8,300,000	8,300,000

Placements		7,361,707
7,361,707		
Federal Reserve MetroBank capital stock	447,400	447,400
Securities held to maturity	6,387,448	6,397,647
Securities available for sale	13,077,324	13,077,324
Loans	260,962,391	260,973,326
Customers' liability on MetroBankers' acceptances	4,771,696	4,771,696
Accrued interest receivable	4,691,334	4,691,334
Financial liabilities		
Demand deposits	\$ 6,309,083	\$6,309,083
Money market and NOW accounts	7,243,582	7,243,582
Certificates of deposit and other time deposits	264,344,958	264,135,859
Acceptances outstanding	4,771,696	4,771,696
Accrued interest payable	2,418,552	2,418,552

13. Dividend Regulations

Dividends payable by the MetroBank are subject to Federal MetroBanking regulations. These regulations generally permit a MetroBank to pay dividends without prior approval in an amount which does not exceed the lower of regulator defined net profits in any calendar year, combined with the retained profits for the two preceding years, or cumulative retained profits. As of December 31,

2015, the MetroBank has accumulated earnings of \$568,393 and had not declared any payment of dividends.

14. Reserve Requirements

Pursuant to Federal MetroBanking regulations, the MetroBank maintains reserve balances with the Federal Reserve MetroBank which amounts are computed as a percentage of average qualifying deposits. These reserve balances are not available for investment purposes. As of December 31, 2015 and 2014, cash reserves of \$207,211 and \$214,205, respectively, were maintained at the Federal Reserve MetroBank.

15. Risk Based Capital

The MetroBank is subject to various regulatory capital requirements administered by the federal MetroBanking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the MetroBank's financial statements. Under capital adequacy guidelines, the MetroBank must meet specific capital guidelines that involve quantitative measures of the MetroBank's assets, liabilities and certain off-balance sheet items. The MetroBank's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the MetroBank to maintain minimum amounts and ratios of Total and Tier I capital (core capital) to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2011, that the MetroBank meets all capital adequacy requirements to which it is subject.

As of December 31, 2011, the most recent notification from the Office of the Comptroller of the Currency categorized the MetroBank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the MetroBank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table on the next page. There are no conditions or events since the notification that management believes have changed the MetroBank's category.

Notes