



# Metro Bank

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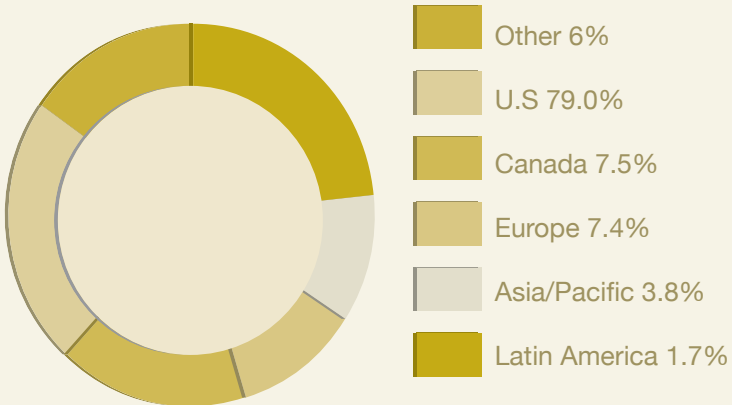
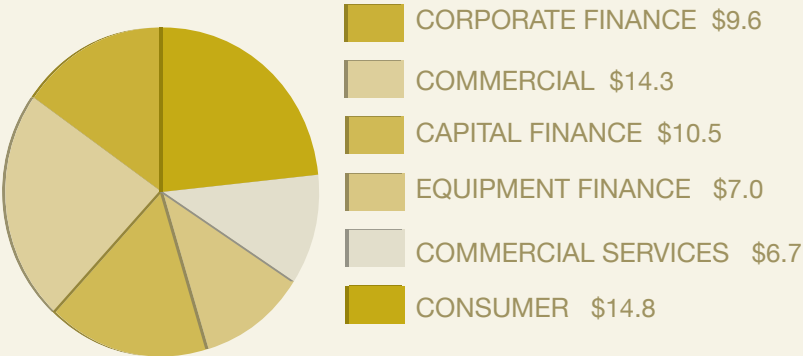
2016  
Annual Report

# Table of contents

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<b>Table of contents</b>	<b>2</b>
<b>Charts</b>	<b>3</b>
<b>Chairman's Message</b>	<b>4</b>
<b>Officers</b>	<b>5</b>
<b>Overview</b>	<b>7</b>
<b>Financial Statement</b>	<b>14</b>
<b>Report of independent Auditors</b>	<b>15</b>
<b>Statement of Income</b>	<b>16</b>
<b>Balance Sheets</b>	<b>17</b>
<b>Cash Flow</b>	<b>18</b>
<b>Notes to financial statements</b>	<b>19</b>

# Charts



# Chairman's Message



**D**ear 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 realigning 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



Global  
Headquarters  
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, 20014.  
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](mailto:valerie.gerard@MetroBank.com)

For more information about Metrobank,  
visit our Web site at [www.Metrobank.  
com](http://www.Metrobank.com).

# Overview



## Business Description

**M**etroBank, 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.

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.

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 programs, 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.

### Specialty 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 examination by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions.

#### **Commercial Finance Group**

**O**ur 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 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**

**O**ur 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

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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

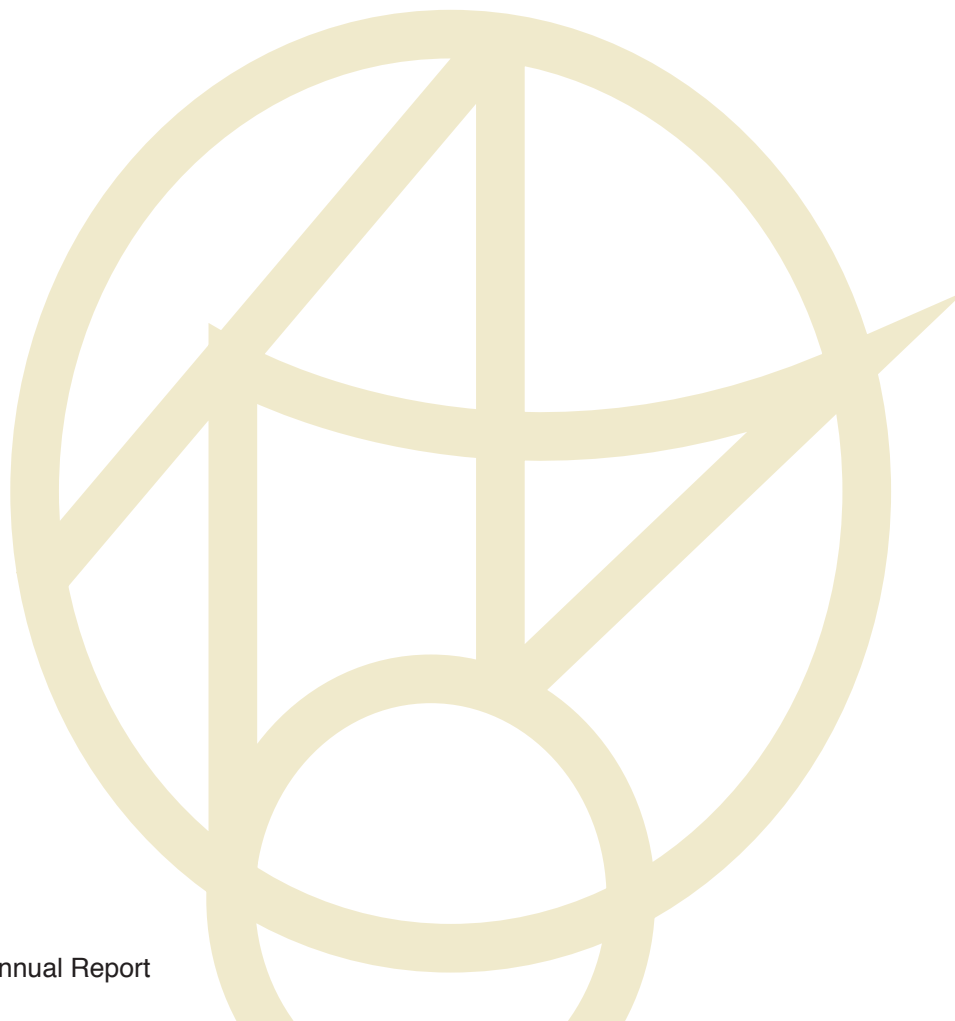
Years ended December 31	<u>2014</u>	<u>2015</u>
Interest income	19,279,830	12,855,84
Placements	438,199	325,552
Investments	1,040,033	139,094
Federal funds sold	149,671	280,858
	20,907,733	13,601,351
Interest expense	13,164,749	8,005,868
Net interest income	7,742,984	5,595,483
Provision for loan losses	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	159,6
Total other operating income	2,505,25	1,582,34
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		
Weighted average common shares outstanding	230,997	231,13

The accompanying notes are an integral part of the financial statements.

Years ended December 31	2014	2015
Cash flows from operating activities		
Net income	1,141,285	952,765
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
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 other assets	4,699,554	355,036
<b>Increase in accrued expenses and other liabilities</b>		
Net cash provided by (used in) operating activities	9,609,006	-1,074,117
<b>Cash flows from investing activities</b>		
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	-	-3,501,65
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
Net cash used in investing activities	-108,225,859	-81,156,393
<b>Cash flows from financing activities</b>		
Increase (decrease) in demand deposits, money market and NOW accounts	1,273,762	-2,434,623
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
Cash, due from banks and cash equivalents at beginning of year	12,549,277	10,028,878
Cash, due from banks and cash equivalents at end of year	10,325,463	12,549,277

Note: During 2004 and 2003, 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.



# Financial Statement

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:

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

Changes in the allowance for loan losses were as follows:

	<u>2015</u>	<u>2014</u>
Balance at January 1		

<b>Charge-offs</b>	\$1,379,532	\$949,532
<b>Recoveries</b>	(1,000,000)	
<b>Provision for loan losses</b>	51,236	
	2,599,232	430,000
Balance at December 31	3,030,000	\$ 1,379,532

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:

#### December 31, 2015

Year ended Dec. 31:

**1998**

**1999-2002**

**2003 and thereafter**

	<b>Amortized cost fair</b>	<b>Estimated fair value</b>
--	----------------------------	-----------------------------

	\$6,179,665	\$6,188,664
	207,783	208,983
	\$6,387,448	\$6,397,647

#### 5. Property and Equipment

Property and equipment is comprised of the following:

##### Machinery and equipment

Leasehold improvements

Furniture and fixtures

		<u>2015</u>	<u>2014</u>
	\$1,385,197	\$1,130,709	
	1,096,583	1,071,442	
	148,0821	132,561	
	2,629,862	2,334,712	

Less accumulated depreciation and amortization	(1,423,009)	(1,261,692)
Balance at Dec. 31	\$1,206,853	\$1,073,020

## 6. Deposits

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

	<u>2015</u>	<u>2014</u>
<b>Demand deposits</b>	\$6,309,083	\$5,313,413
<b>Money market and NOW accounts</b>	\$7,243,582	\$6,965,490
<b>Certificates of deposit and other time deposits:</b>		
<b>Domestic:</b>		
<b>Certificates of deposit \$100,000 and over</b>	\$154,975,799	\$ 63,271,470
<b>Certificates of deposit under \$100,000</b>	91,958,753	83,238,109
<b>Domestic time</b>	2,088,364	
<b>Total domestic certificates of deposit and other time deposits</b>	249,022,916	146,509,579
<b>Foreign:</b>		
<b>Certificates of deposit \$100,000 and over</b>	12,663,867	10,133,635
<b>Certificates of deposit under \$100,000</b>	1,748,916	2,161,351
<b>Other time deposits from foreign offices</b>	909,259	221,116



Total foreign certificates of deposit and other time deposits	15,322,042	12,516,102
Total certificates of deposit and other time deposits	\$264,344,958	\$159,025,681

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		—
<b>Total time deposits</b>		<b>\$264,344,958</b>

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.

**7. Income Taxes**

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

		<u>2015</u>	<u>2014</u>
	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		(114,002)	(74,912)
Total deferred		(404,193)	(293,287)
		<b>\$852,505</b>	<b>\$525,685</b>

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.

## 8. 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 and 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 MetroBank 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, 2010 and 2010, 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 2011 and 2010, 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 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.

## 9. 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, 2015 are as follows:

2011	\$1453,763
2012	541,712
2013	541,712
2014	575,620
2015	586,922
Thereafter	5,143,50
	\$7,843,235

## **10. 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>2015</u>	<u>2014</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		–

### **11. 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.

### **12. 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:

Carrying Estimated

December 31, 2015 Amount 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.